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XVII

Canada Cooperative, Royal Commission

(ROYAL COMMISSION
ON
CO-OPERATIVES)

1945

PROCEEDINGS
(OFFICIAL REPORT)

VOLUME No. XIV

PLACE Ottawa

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ROYAL COMMISSION ON CO-OPERATIVES

Ottawa, Ontario, Tuesday, April 10, 1945

VOLUME XIV

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ROYAL COMMISSION ON CO-OPERATIVES

The Commission appointed to inquire into the present position of co-operatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Ottawa, Ontario, on Tuesday, April 10, 1945.

PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman.

B. N. ARNASON	}	Commissioners
G. A. ELLIOTT		
J. M. NADEAU		
J. J. VAUGHAN		

Eugene T. Parker, K.C. Counsel

Major H. D. Woods	}	Associate Registrars
J. A. Chapdelaine		

Colonel G. W. Ross Executive Secretary

APPEARANCES:

W. B. Francis	Ten Co-operative Associations
G. C. Nowlan	United Fruit Companies of Nova Scotia
W. H. Howard, K.C.	Private Grain Interests
W. P. Fillmore, K.C.	Private Grain Interests
R. H. Milliken, K.C.	Saskatchewan Co-operatives; Associated Growers of British Columbia, Limited, and Affiliated Locals
W. B. Scott, K.C.	Canadian Chamber of Commerce

Ottawa,
Tuesday,
April 10, 1945.

The Commission met at 10 a.m., Mr. Justice McDougall presiding.

MR. PARKER: I understand, Mr. Chairman, as intimated by Mr. Francis, that the witness who read the brief will now stand aside and the other official will identify the brief generally and perhaps answer some questions.

MR. FRANCIS: My Lord, I call Robert J. Scott to the stand.

ROBERT J. SCOTT,

Director,
United Farmers Co-operative
Company Limited,
having been duly sworn
testified as follows:

BY MR. FRANCIS:

Q. What is your occupation, Mr. Scott? A. Farmer.

Q. Do you hold any official position with the United Farmers Co-operative Company Limited? A. A director of the company.

Q. You are a director of the company? How long have you been a director? A. Since 1934.

Q. Have you ever been president of the company?
A. Yes.

Q. For how long? A. For seven years.

Q. And when did you retire from the presidency?
A. About a month ago.

Q. And until the present time, for the last few years you have been in close touch with the affairs of the company?
A. That is right.

BY MR. PARKER:

Q. You are a farmer, but do you farm? A. Pardon?

Q. Do you carry on farming operations? A. That is right.

Q. Are you pretty familiar with the history of this company since its incorporation, I think it was in 1914?

A. Well, perhaps as familiar as a person of my years would be with an organization incorporated thirty years ago.

Q. I mean as to the general policy of the company? That is, how it grew and how it branched out and took on other activities and that sort of thing? A. Yes, I would say reasonably so.

Q. Let us see if we can draw a little picture of its history and growth. I understand this company was incorporated in 1914? A. That is right; in February, 1914.

Q. By what lawyers call letters patent issued to you under the Ontario Companies Act? A. That is correct.

Q. And at its inception it was in all respects an ordinary joint stock company? A. I would not quite admit that.

Q. Well, in what respect was it not that? A. Because the charter at that time, in 1914, suggested that it would be operated under a co-operative plan.

Q. Did it? You are sure of that, are you? A. I believe so.

Q. How recently have you read the charter of 1914? A. I believe I read this copy yesterday.

Q. Then if your memory is pretty good that should be fairly reliable. If you have a copy perhaps you can tell me where that clause is. Look at page 2, the paragraph in the middle of the page. A. "-- on the co-operative plan for

the mutual advantage, accommodation and convenience of the members of the company."

Q. Let me read it all, now:

"(b) Without restricting the generality of the foregoing expressions, to carry on the business of farming and all its branches on the co-operative plan for the mutual advantage, accommodation and convenience of the members of the company."

It does not say anything about carrying on trading or processing or exporting, or that sort of thing, does it; or is there another clause somewhere? A. No, not that I am aware of. Subsequent to that, however, the by-laws --

Q. I am not talking about anything subsequent to that at the moment. A. The by-laws of the company provided for other things.

Q. We will come to that. That is the by-laws that were adopted in 1914? A. Yes.

Q. Have you a copy of them? A. I would not say that there is a copy of all the by-laws as originally drafted in 1914.

Q. Those are the ones I am talking about, not ones that were remodelled a month or two ago. A. Most of the by-laws at present --

Q. I am not talking about the ones at present, sir. I am asking you if you have a copy of the by-laws which were adopted at the time the company was incorporated. If you have not a copy we cannot deal with them; that is all. A. No, I have not got one.

Q. Anyway a joint stock company without modifications, and it had a capital of how much, do you remember?

A. Originally of \$10,000, I believe.

Q. Ordinary shares at \$25 a share? A. Correct.

Q. Do you know whether those shares were all subscribed and paid up right away, right after the company was incorporated, or how many of them were dealt with in that way?

A. You mean immediately following incorporation?

Q. Immediately, or shortly thereafter. What I am getting at is, were they all substantially paid up, or was there only a handful issued? Did the company get some substantial capital at that time? If you do not know, say so.

A. Within three years, yes; I would say they were all paid up.

Q. Within three years? A. Yes.

Q. Were they all paid up before the capital was increased in 1917? Do you know that? A. I could not answer that definitely. I presume they were, for all practical purposes.

Q. Anyway, then in 1917 -- or perhaps I am going too fast. During that three years, speaking very generally, perhaps you will tell me what the company was engaged in. Was it engaged in farming, or was it engaged in trading? A. It was largely in farm supplies, the handling of farm supplies.

Q. The handling of seed, and one thing and another?

A. Binder twine, salt and so on.

Q. It was largely a supply house for that first three years? A. Yes.

Q. In 1917, for some reason or other, it became desirable, it would seem, to have the capital increased. Do you remember that? By supplementary letters patent of that year the capital was increased from the sum of \$10,000 to the sum of \$250,000. Do you remember that? A. No, I do not remember that, but I have the record here. That is correct.

Q. Can you tell us in a word why it was necessary to

jump the capital in three years from \$10,000 up to \$250,000? What were the circumstances that made that desirable, do you know? A. Well, generally speaking I would say that these were the circumstances. The United Farmers Co-operative Company was sponsored by the United Farmers of Ontario; I mean they were the parent educational and social organization; and the officers were then, and to a large extent have been, duplicate officers in that period.

Q. The president at the inception was our good friend Mr. Good; he was one of the incorporators? A. Yes. In that period the united farmer movement, which took form in the nature of farmers' clubs over the province of Ontario, grew apace, and the demand from these numerous units, increasing by hundreds each year, I would say, made an increase in capital necessary.

Q. All right; and it was increased accordingly, as I have said, from \$10,000 to \$250,000, still with common shares of \$25 par value? A. I believe so.

Q. That was in 1917. Three years later, in 1920, by further supplementary letters patent, there was another increase, was there not? A. Yes.

Q. This ran to how much? A. \$250,000, was it?

Q. From the sum of \$250,000 to the sum of \$1,000,000?

A. Yes.

Q. By the creation of 30,000 shares of new stock at \$25 a share. Is that explained on the same general principle, that with the rapid growth of the company it had to have more capital to get along with? A. I would answer it in this way, that in 1920 the United Farmer movement reached its peak, in which there were some 1,500 farmers' clubs in Ontario, and the same situation prevailed.

Q. That is what I say, then; a gradual expansion and increase? A. That is right.

Q. Then can you tell me whether that \$250,000 capital was all subscribed and paid up before it was increased to \$1,000,000? Do you know anything about that? A. I could not say.

Q. Is there not someone here who can tell us that?

A. Mr. Good probably can.

THE CHAIRMAN: Mr. Good indicates that he can.

MR. PARKER: Was it all paid up?

MR. W. C. GOOD: I would say yes, practically all of it, before the increase was authorized.

MR. PARKER: Then in 1921, the following year, we have a further increase from the sum of \$1,000,000 to the sum of \$1,250,000, by the creation of 10,000 additional shares. Do you remember that? Does the same thing apply to that; just the further expansion and the need of more capital?

THE WITNESS: Yes.

MR. PARKER: Is that right?

MR. GOOD: No; the million dollars was not taken up when that additional capital was authorized.

MR. PARKER: Was the full million not taken up?

MR. GOOD: The total amount, in my recollection, that was actually paid up or subscribed for was about \$800,000.

MR. PARKER: Quite a difference between paid up and subscribed for. What I am getting at is, how much actual cash from the sale of shares did the company have as its working capital? That is my only point, to ascertain how much actual cash the company had for working capital, because if it was only subscribed for and not paid up it does not produce very much cash.

MR. GOOD: I could not speak from recollection, but I would say that pretty close to the \$800,000 was paid up in cash.

BY MR. PARKER:

Q. That is fine. Then if there was still \$200,000 to be gathered in, what was the reason for increasing the capital by another quarter of a million dollars, if you still had \$200,000 to gather in? Can you answer that? If you cannot, just say so. A. Might I refer you to the supplementary letters patent of 1927?

Q. No, not yet; I would rather you did not. If you say you cannot answer this question -- A. But I have to answer it by this, because in 1927 apparently there were 29,471 shares of the 47,792 shares of the issued stock of the company cancelled, so there must have been that many shares.

Q. I understand that. A. Might I answer further and say that my recollection is that in 1920 the option was provided an applicant for shares to pay for a share in cash or to pay one-half in cash and one-half by note.

Q. Is that all? A. Yes.

Q. Now let us come back to my question. In 1921, when the capital was increased from \$1,000,000 to \$1,250,000, with some of the million still unpaid for why was it necessary or desirable to get that additional quarter of a million in capital? A. I couldn't answer that.

Q. Well, that was in 1921. Now, in 1927 we seem to go back to the Letters Patent Office again. Perhaps you can explain this one. In this case it was directed as follows:

"(1) By cancelling twenty-nine thousand four hundred and seventy-one shares of the forty-seven thousand seven hundred and ninety-two shares of the capital stock of the company of the par value of twenty-five dollars each, heretofore issued

and outstanding;

"(2) By changing eighteen thousand three hundred and eighteen shares, the balance of such issued and outstanding shares, --"

As I understand it, those two added together represent the total issued shares out of the 50,000, if I worked those figures out correctly last night. Have you the document in front of you there from which I am reading? A. Yes.

Q. You see the first part. I take it that means issued shares, not unissued? A. That is right.

Q. Then the second provision goes on:

"(2) By changing eighteen thousand three hundred and eighteen shares, the balance of such issued and outstanding shares, -- "

If you add those two together you get 47,792, which is all of the issued shares except three, which I take it to be the necessary qualifying shares. Is that right? So that would leave approximately a little over 2,000 shares unissued. What was going on that made this change necessary and desirable? I think perhaps I had better read the whole of this. This is what you did in 1927. You cancelled 29,471 of the issued shares of the stock of the company. Then you changed 18,318 of the balance into 70,051 shares without nominal or par value, equivalent to one share for each \$12.50 paid to the company by purchasers of the said 47,792 shares issued and outstanding, and you changed 2,208 unissued shares of the capital stock of the company into shares without any nominal or par value. In other words, you changed all these shares, whether issued or unissued, to shares of no par value? A. Yes.

Q. Why? Do you know? A. I cannot answer the question

as to the change from par value to no par value, but the circumstances were that, as I said a few minutes ago, the applicant for a share originally had the option, in the drive of 1920, when this great increase in capital took place and there was a province-wide drive, of paying for the share in full in cash, or paying half in cash and half by note; and in the intervening seven years --

Q. By demand note or long term note, or what kind of note? A. Demand note.

Q. Then all they had to do was call the notes and get the capital, was it not? A. That is right.

Q. Go on. A. At the end of the six or seven years the company had had substantial business losses. In the opinion of its board of directors it was not in a position to call those notes without causing a tremendous amount of ill will for itself over the whole province. That was the reason for cancelling the notes, which represented half of a good many of these shares originally issued, \$25 shares, and issuing two shares of no par value in lieu of the one original fully paid share, and one share of no par value where the share was half paid in cash and the other half represented by notes.

Q. The third thing they did at this time, and I cannot follow this at all, was:

"(3) By declaring that the capital of the company shall be at least equal to the sum of the aggregate par value of all issued shares having par value, plus twelve dollars and fifty cents in respect to every issued share without par value, plus such amounts as, from time to time, by by-law of the company, may be transferred thereto."

A. Neither can I interpret it. Neither could the provincial treasurer's department, so in 1943, by private bill, we attempted to have it clarified.

Q. Who asked for it? How did it get in there? I cannot understand that. A. I presume our lawyer, our counsel of that day --

Q. I will not even ask you who he was. Did you ever ask the lawyer who drafted it if he knew what it was? A. He has been deceased these many years.

Q. All right. There was one thing more:

"(b) Declare that the capital of the company shall not be less than three hundred and thirty-five thousand six hundred and sixteen dollars and fifty-nine cents."

Is that the maximum capital the company had ever had until 1927, this \$335,616.59? A. Oh, no.

Q. What was the point in saying that the maximum capital of this company should be that odd amount? It does not make any sense to me. A. Nor to me.

Q. Nor, I dare say, to the Commission. At any rate, that is what was done in 1927? A. That is right.

Q. Then that is a brief history of the operations of the company from 1914 to 1927, a period of thirteen years; and during that time were its activities confined to supplying farmers, or was it selling farmers' produce as well? A. To both fields of activity.

Q. All during that period can you tell me, very generally, whether the company was able to pay dividends, reasonable dividends, on its paid-up shares? A. From 1914 to 1920 my recollection is that it paid 7 per cent on its rather small capital. From 1920 until 1927 I could not give you the picture.

Q. You do not know what its record was from 1920 to 1927? A. No.

Q. From 1914 to 1920 did it pay any patronage dividends to anybody? A. No, not to my knowledge.

Q. Do you know? A. Yes. I would say no.

Q. From 1920 to 1927 did it pay any patronage dividends? A. Yes.

Q. To whom, and on what basis? A. It paid patronage dividends commencing in 1923 to cream patrons.

Q. That is, during that period you were handling patrons' cream? A. We were operating some six or seven creameries.

Q. I say during that period you were paying patronage dividends to creamery patrons; is that right? Were these creamery patrons to whom you paid dividends shareholders in your company? A. Some of them; perhaps a majority of them.

Q. But a large number were not? A. That is right.

Q. And were the dividends paid to those creamery patrons who were shareholders and to those creamery patrons who were not shareholders on the same basis? A. Our policy has always been to pay on the same basis.

Q. Just answer that question. A. It was.

Q. And no doubt they were in proportion to the amount of butter fat they delivered? A. Yes.

Q. And during that period were you buying that butter fat or cream from these patrons? A. We were buying the butter fat.

Q. And turning it into butter and disposing of the butter? On what basis did you calculate the dividends that you would pay to these people? A. On the basis of the earnings of the creamery department.

Q. That is, you kept it departmentalized so that the

creamery would have to either stand or fall? That is right.

Q. But you made no distinction between the shareholder patrons and the non-shareholder patrons? A. No.

Q. Did you have any written agreement with those creamery people during that period as to the terms on which you would buy their cream and pay patronage dividends? A. No.

Q. It was purely a matter of discretion of the directors during that period as to whether or not and how much dividends would be paid to these creamery people? A. I would say that it was finally, but it was at the urging of the shareholders at an annual meeting.

Q. I understand that.

BY THE CHAIRMAN:

Q. Was there any formal membership for those affiliated patrons who were not shareholders? A. No.

Q. Nothing at all? A. In Ontario our Act says that in a share capital co-operative a shareholder is a member only. The term "shareholder" means the member. In a non-share --

Q. I am speaking now of the persons who were not shareholders and who were receiving the patronage dividend. What was their association with the company? A. They had no direct association other than the patronage.

Q. They were outsiders? A. That is right.

BY MR. PARKER:

Q. In addition to the creamery people, during the period from 1920 to 1927 were patronage dividends paid to anybody else, any other type of patrons? A. I cannot answer that accurately beyond saying this, that I believe an egg pool was operated in that period, and that advance payment was made on eggs and final settlement was made at the end of a pool period.

Q. Were you purchasing eggs the same as you were purchasing the cream, on a similar basis? A. No.

Q. What was the difference? A. We were pooling the eggs at less than the current market price, subject to a final payment.

Q. What I am getting at is this. Were you purchasing the eggs or merely handling the eggs on a consignment or agency basis? A. We were purchasing them under an obligation to pool and return a final payment.

Q. But that is not so in reference to the cream, which you were just talking about? A. I would say that is not so.

Q. That is cream and eggs. Now what else; any other branches to which you were paying dividends? A. Not to my knowledge.

Q. Up until 1927 did the company hold anything back either from the proceeds of the sale of cream or the sale of eggs, and start an accumulation of reserves which they could use for working capital to supplement their share capital? A. I cannot answer that.

Q. Was any reserve accumulated up until 1927 on that basis? A. I cannot answer that.

Q. Do you know whether the company had any capital or any money it could use as working capital, other than that which it received from the sale of its shares prior to 1927? A. Not to my knowledge.

Q. Now after 1927 the next time this company seems to come to bat is in 1943. In 1943 a special Act was obtained from the legislature, was it not? A. That is correct.

Q. Can you tell me in a word why it was necessary or desirable, or for what reason the company proceeded to the

legislature for special legislation in 1943? A. There was no special reason why it should be the year 1943. There were some attempts to reorganize the company, with a particularly vigorous attempt in 1930, and the reason that it was --

Q. Was an application made in 1930 for legislation which was refused? A. Not for a private bill.

Q. What was attempted to be done in 1930? A. An attempt was made at a shareholders meeting to reorganize under, I believe the name was United Farmers' Co-operative Association, transferring the assets of the old company to the new co-operative company.

Q. That proved abortive and did not go through?

A. That is right.

Q. And the company continued until 1943 before any change was made; and in 1943 a bill was put through the legislature again changing the capital structure. Is that right?

A. I would say that it was less changing the capital structure than it was clearly defining it, although it did change it.

Q. We will let the Commission decide that. Here is what it says:

"Notwithstanding the provisions of the supplementary letters patent of the company, dated the tenth day of March, 1927, the capital of the company shall be and since the said date shall be deemed to have been the sum of three hundred and sixty-one thousand seven hundred and nine dollars and nine cents."

I wonder what that was intended to do. Was it in fact \$361,709.09? Was the legislature, by this bill, legislating that the company was deemed to have had so much capital when in fact it did not have that much, or when it had less or more?

What was the point of it? Will you explain it? A. As you suggested, and I agreed with you, in 1927, in the supplementary letters patent, they were not clear; and I believe at that time the capital was \$335,000, or it was so declared in 1927.

Q. Yes? A. And following that, very shortly afterwards, the federal government grants on cold storage facilities that we had built were returned to us, and they were applied to capital account. They were federal government grants, you see what I mean, and they together made \$361,000 odd. That is the explanation, as far as I can give it.

Q. All right. Whether factually or in some artificial way, the legislature declared that the capital had always been and was that amount. Is that not what it says? "The capital of the company shall be, and since the said date shall be deemed to have been, the sum of \$361,709.09." Does that mean actual paid-up capital, or only authorized capital? A. No; paid up.

Q. All right; let us go on:

"2. All dividends heretofore declared and paid by the company shall be deemed to have been validly declared and paid."

Was there any question in the mind of anybody at that time that you had been illegally or invalidly paying and declaring dividends? What was this intended to cure, do you know? A. I cannot understand that.

Q. Then it goes on:

"3. The company shall be subject to the provisions of Part XII of The Companies Act and the following provisions shall be deemed to apply and to have always applied to the company --"

I am not going to read all this, but apparently it was

an attempt by legislation to change the nature of this company, to turn it into a co-operative. Is that a fair way to put it? A. I would rather say it was an attempt to clarify what it had been doing in practice and by by-law since its inception, although legally it was under the ordinary company law.

Q. Well, look at paragraph (c) and see if you think that is what you have just described the company as having been doing:

"(c) that the surplus funds arising from the business of the company shall be distributed annually as follows:

"(i) payment of interest on the paid-up capital at a rate not exceeding eight per centum per annum.

"(ii) division of the remaining net surplus funds among the members or shareholders --"

That bothers me. Does that mean the same thing, members or shareholders; are they two names for the same group? A. Yes.

Q. Then it goes on:

"-- in proportion to the volume of business which they have done with or through the company."

But you were distributing dividends prior to that, though perhaps not on that basis, were you not, to shareholders and to non-shareholders? A. That is right.

Q. But this says that you should do it to shareholders or to members only, does it not?

THE CHAIRMAN: Then how are the members distinguished from the shareholders?

MR. PARKER: The witness says they are the same thing. That is what bothers me, whether that word "members" was intended to mean the non-shareholders we were talking about a moment ago, and they were validating payments to them, but the

witness says that is not so.

BY MR. ARNASON:

Q. Are you now paying patronage dividends to non-members? A. Yes, in respect to farm products marketed through our company; not in respect of farm supplies, but in respect of farm products.

BY MR. PARKER:

Q. That is the producer end, so to speak, as distinct from the consumer end? A. Yes.

Q. You still say that "member" and "shareholder" are two terms for the same group? A. That is right.

Q. Then it goes on:

"(iii) where such surplus does not exceed one per centum of the year's business, said distribution may be deferred by resolution of the company."

Then it goes on to paragraph 4, which is rather important, I think:

"4. Notwithstanding anything in this Act or The Companies Act, every co-operative corporation holding shares of the company --"

That is, shares in this big company we are talking about; that is, any co-operative corporation, which is a shareholder in the United --

"--shall be entitled, if so approved by the company, to appoint one or more delegates to the meetings of the shareholders of the company; such delegates shall be shareholders or members of the co-operative corporation and the number thereof in each case shall be determined by the by-laws of the company, but in no event shall there be a larger number of delegates than the number of shares held by the co-operative corporation in the company."

Can you put that in a few words and explain it to me? Here you have a lot of individual members of the United, have you not? A. Yes, over 20,000.

Q. And you have certain corporations that are also members? A. That is right.

Q. And you work, I take it, on the theory of "one member, one vote"; that is the co-operative method? A. That is right.

Q. No matter how many shares he holds? A. With the exception of a by-law which provides for delegate shareholder representation.

Q. That is what I am coming to. So that principle is cut into by this exception, that when you have a member of your company, that member being a corporate body, that member can have quite a lot of votes? A. No, not quite a lot.

Q. More than one? A. That is right.

Q. I do not care whether it is two or a hundred and two; it is more than one. In other words it departs from the "one member, one vote" principle? A. That is right.

Q. And as you say here, the number of delegates that can attend a shareholders meeting of this company and vote is in proportion --

--in no event shall there be a larger number of delegates than the number of shares held by the co-operative corporation in the company."

In other words, if a corporation held twenty shares it could elect twenty delegates to attend an annual meeting of this company and vote? A. No.

Q. What does it mean if it does not mean that? A. Because it is circumscribed by by-law No.7.

Q. When was that by-law passed; in 1944? A. No; ten years ago, I would say.

Q. What is the by-law? You have not furnished us with copies of that. Tell us what it is. A. Yes, you have a copy of it. It is at the foot of the affiliation agreement, in Exhibit "A".

Q. Is this it?

"Notwithstanding the provisions of By-law No.5 each unincorporated farmers club operating in general conformity with the statutes of the province of Ontario governing co-operative companies and each local co-operative conforming to province of Ontario statutes governing co-operative companies, may elect one delegate-shareholder to represent it at shareholders' meetings provided that each branch association or local co-operative holds one or more shares of stock in The United Farmers Co-operative Company Limited; and each branch association or local co-operative may elect additional delegate-shareholders to represent it at shareholders' meetings on the basis of one delegate-shareholder for each forty fully qualified members or the major portion thereof over and above the first forty members, provided that each branch association or local co-operative holds a number of shares of stock in The United Farmers Co-operative Company Limited at least equal to the number of delegates appointed, and provided further that the maximum number of delegates from any branch association or local co-operative shall be eight."

Is that the one? A. Yes.

Q. So at any rate you depart from the "one member, one vote" principle to this extent, that one member may have as high as eight votes. That is the maximum? A. One corporate member.

Q. That is a member, is it not, just as much as an individual? A. Yes.

Q. Then in 1944 you went back to the legislature again; no, you went back to the Letters Patent Office again. Why did you go back in 1944? You changed the whole capital set-up again in 1944, did you not? You were president then, were you not? A. That is right.

Q. And I take it that you were guiding the affairs and policy of this company, to a certain extent? A. Yes. You say "when you changed the capital structure of the company."

Q. Is that not what you did? A. I would say we increased it.

Q. Did you not change it, too? A. In respect to preferred stock, but not in respect to common stock except by increasing it.

Q. If you think my expression "change" is not apt, I will withdraw it. A. I thought you meant some structural change.

Q. I still think it is a structural change, a change in the capital structure of this company; but if you do not, that is all right. Let us see what you did, anyway. To begin with, you increased the common shares? A. That is right.

Q. That was the second thing you did. Under the first clause you created 100,000 non-voting preference shares, and later attached certain rights to them? A. Yes.

Q. Why? What was going on in this period so that you found it desirable or necessary to create preference shares and increase your common shares? What was going on; what was it designed to accomplish? A. It was designed to provide additional capital to meet the requirements of a rapidly expanding volume of business.

Q. And what change had taken place that made it desirable, after thirty years of operation, to have preference

shares for the first time, and a non-cumulative preferential dividend of five per cent? Why was that necessary?

A. Since 1934, since the movement started --

Q. What movement? A. If you like to call it a movement, from individual shareholders to corporate units or local affiliates, that was launched, I think, in 1934, and that up to the present time has been growing progressively.

Q. It was launched and fostered and advertised by the directors of this company, not by the people, was it not? What I am getting at is this, in connection with this movement. Did the people come to you to do this sort of thing, or did you, the directors of the company, urge it upon the people as a good thing to do? A. It was mutual; both were factors in it.

Q. I should think one or the other would take the lead?

A. Undoubtedly the directors would take the lead, by virtue of their position.

Q. Well, let us try to get along; we cannot take too much time on this. I just wondered why it was decided to make this change by creating these preference shares. Could I say it was because you needed more capital; is that a fair way to put it? A. Perhaps the principal reason.

Q. Well, give it to us; that is what I am asking you for. A. The other reason, of course, was that when we had the private bill passed the board of directors, then coming under Part XII of the Ontario Companies Act, had the right over the transfer of shares; and in any company having over 22,000 shareholders the rate of decrease or death will run a thousand a year or so. Then as a result of twenty or thirty years, many of these shares were being transferred through estates to people who were not interested in farming and who

perhaps were not interested in the co-operative movement, and they were voting shares. So the board of directors, with the consent of the annual meeting, applied for preference shares, so that they might issue preference shares to individuals that they would not accept as voting shareholders of common stock, and also that they might create additional capital through friends of the co-operative movement, other than those interested in agriculture, investing in it.

Q. All right. From 1927 to 1944 did you pay patronage dividends to anybody; or is this document which you have filed a list of the patronage dividends? Does that tell the whole story? A. It may within those ten years.

Q. I do not want amounts; I am not particularly interested in that, if you will just follow me on a few general principles. I asked you that question in relation to the period up to 1927, and you have explained how in reference to cream and eggs you did pay patronage dividends. Now I am coming from 1927 to date. What has the company been doing by way of paying patronage dividends? A. Yes, I believe that list is correct.

Q. This sheet is correct? A. Yes.

Q. But this only covers the period from 1935 to 1944. During 1927 to 1935 did they pay them? A. From 1927 to 1931 we paid these amounts on cream. It is on the next sheet of that exhibit.

Q. That goes from 1923 right up to date. That deals with cream only? A. That is right.

Q. So the record shows that from 1923 to 1944, with the exception of the period from 1932 to 1938, when none was earned, in all other years you paid patronage dividends to your cream shippers? A. That is correct.

Q. And during that period you made no distinction between the shareholder shippers and the non-shareholder shippers? A. That is correct.

Q. Then from 1927 to date have you done the same with your egg people; have you paid them dividends whether they were shareholder members or not? A. We discontinued the egg pool. I cannot give you the year, but it ran for a number of years. I think you will appreciate that in those days eggs were very scarce, at Eastertime and so on --

Q. Let us not go into all that. I do not care whether they were scarce or not, and I do not think the Commission cares. Just tell me when you stopped paying patronage dividends to your egg people? A. When we dropped the egg pool.

Q. When was that? A. I could not answer as to the year.

Q. About when? 1932 or 1933? It was sometime after 1927, anyway? A. Not much after.

Q. All right; some time after? A. All right; perhaps after.

Q. In addition to the eggs and the cream, did you pay patronage dividends to any other type of people with whom you were doing business from 1927 on? A. I do not believe we did. I do not think so, until 1941.

Q. From 1941 on you paid the cream people, and who else? By that time the egg pools had gone out of business. To what other classes did you pay dividends, other than your cream people? A. To affiliates, in 1940.

Q. Who are they? A. They are local co-operative associations operating under affiliation agreement.

Q. I am speaking of your individual members. The only ones who received patronage dividends were your egg people

and your cream people? Is that right, or were there some others, other than your corporate members? Do you understand me? A. That is a hard question to answer, because there is an obligation on the part of an affiliate to pass on the payments we pay them, on to the individual.

Q. I am not asking you about any obligation on the part of the affiliate. I am merely asking you if this United Company paid any dividends to anybody other than your affiliate members, and other than your cream people and your egg people. Could you answer that, please, if you know? A. There was a very small dividend paid on lubricating oils to individuals.

Q. Shareholders? Members of this company? Or non-shareholder patrons of this company? A. Both. It was a very small amount.

Q. But my point is that you make no distinction between your shareholder members and your non-shareholder members? A. Not in respect to oil.

Q. Nor in respect to eggs, nor in respect to cream? A. That is right.

Q. Or anybody else who does business with you? A. Oh, the affiliates; yes.

Q. The affiliates have to be shareholders? A. That is right.

Q. I am talking about individuals. A. No; no distinction.

Q. You make no distinction anywhere in any field of your operations, between shareholders who are members of your company and non-shareholder patrons? A. That is right.

Q. You have filed here three agreements, the first of which is called an affiliation agreement for co-operative producers, what you have been talking about just now. This,

I take it, was the result of activities on behalf of the board of directors of United, to induce these co-operatives to become members of your company. Is that right? A. This agreement was initiated originally by the board of directors. It was confirmed by meetings of the affiliates.

Q. I understand that would be so, before it was signed, but the whole idea of getting these affiliates in, was that the idea of the directors or was it something that emanated from the people who wanted to get in? If you do not know, say so. A. I could not say.

Q. In any case this sets forth the terms under which these co-operative institutions become members of your company. It sets forth the things that you do for the affiliates, and what the affiliates are supposed to do for you, and the Commission can read this at their leisure. I only want to draw attention to one clause; that is clause 5 in the second part of the agreement, which is the part concerning the things the affiliates agree to do with you:

"To invest all moneys received as wholesale patronage savings returns from the provincial wholesale --

I take it that is your company.

"-- in the purchase of the common stock of the provincial wholesale --"

So these dividends, which you say you have been paying to these affiliate members, you do not actually pay them; you hold it back and issue shares. Is that right? A. We do not actually issue the cheque and send it out.

Q. Just answer my question. A. But we do not hold it back.

Q. Well, you have it, and you do not pay it. If that is not holding it back, what is it? A. We do pay it.

Q. How do you pay it? A. On their instructions we

pay it in the purchase of common shares for their account, and send them the common shares.

Q. Would it not be just as simple to say that instead of paying them cash representing their patronage dividend, by agreement between the two of you, you issue a share and send them the share? A. That is right.

Q. So they get no cash? They never actually get the cash? The co-operative does not actually get the cash at all? A. No.

Q. Do you know as a matter of fact whether the local co-operative, in setting up its account, treats that as cash having been received, or how it is treated in their books? Do you know? A. I could not say.

Q. What do you do for the co-operatives, in a word? What services do you render? A. For the affiliates, you mean?

Q. Yes. What advantage is it to have this agreement and come under its terms? What services do they get from the parent company? I will not press that, because it is all set out in the agreement, and we can read it for ourselves. Now, you have another agreement which is called an agreement on premix concentrate feed program. Who originated this program, the company or the struggling people out in the country? Who wanted you to help them? In other words, without beating about the bush, this is an aggressive company seeking expansion in all types of commercial business, is it not, this United Company? A. Many types.

Q. And whenever it sees a chance to expand profitably and for the benefit of itself and its members, it does expand? That is a fair way to put it, is it not? A. I would answer that in this way, that of all the developments the

premix program was at the most persistent insistence of the local people.

Q. Well, that may very well be. But speaking generally, it is the policy of this United company to expand in the commercial world in all branches of business which they think it is proper and wise and helpful to enter into? That is their general policy? A. In the interest of the farm people.

Q. And in the interest of the company itself? A. No.

Q. In the interest of somebody it is their policy to grow and expand? A. That is right.

Q. And this premix agreement is just one sample. I just see paragraph 4 in the bottom part of this agreement. This is what the affiliate agrees to do:

"Undertaking to provide initial cash capital for the Premix Concentrate Feed Program on the basis of \$1.50 per ton on the amount of mixed feed distributed by the association during the previous year or estimated as the amount which would be distributed in the first year under the premix plan. This initial capital may be provided by either of the following methods --"

In other words is it fair to say that this agreement is intended to provide and in fact does provide additional capital to the United from the affiliates? A. Additional capital?

Q. Working capital for the United, through this \$1.50 per ton? A. Yes, it provides additional capital for a specified project.

Q. Exactly, but at the rate of \$1.50 per ton? A. Yes.

Q. It is a sort of holdback, as we said before, under the other agreement? A. Oh, no.

Q. That is so; this is a straight investment? A. That is right.

Q. What do they get to represent that; shares in the company? A. That is right.

Q. Further shares? A. Yes. The local association, if it invests \$1.50, will get common shares in the company.

Q. But they put up this money in cash, or is it an over-charge or holdback? A. They put it up in cash.

Q. Take this premix. That is not a separate corporate body; it is only a part of your work? A. Yes.

Q. You keep separate departmental accounts for all these things? A. Yes.

Q. Is this a profitable branch? A. It has not been in operation long enough to know. It is comparatively recent; some months.

Q. Then we have still a third agreement, covering a marketing contract between district poultry and egg co-operatives and so forth. What is this about? Just tell us what that is supposed to be? A. The marketing contract between district poultry and egg co-operatives relates itself to several local co-operatives who in the last year installed automatic line picking machinery for poultry, and cold storage facilities; and it involved the pooling for marketing of the poultry from Peterborough, Renfrew, Cayuga, and so on.

Q. Then I do not think we need to enter into that; but there are two other types of agreement; perhaps we can get enough information about them so we can read them intelligently. One is called a management agreement between you and the affiliates. Do you see that? A. Yes.

Q. In other words your company takes a sort of professional interest, becomes sort of professional managers of these affiliated companies; is that it? A. Professional?

Q. Professional managers of these co-operatives. Is that a fair way to describe it? You seek to keep their accounts, give them advice, decide what inventories they shall carry and all that sort of thing, under your supervision. Is that not a brief summary of this management agreement? A. No.

Q. Why? Are not these local co-operatives able to manage their own business? What is the point of this agreement? It looks to me as though this United company is getting to be a powerful institution in the country. It manages all these locals, sort of gives them marching orders and so on. Is that right? A. Not all of the locals.

Q. A good many of them? A. No, not a good many.

Q. How many? A. Half a dozen; perhaps eight.

Q. How many affiliate members have you altogether?
A. Oh, 115 or 120.

Q. But you only have these management agreements with eight or ten? A. Yes.

Q. Why have you not more? Will not the others come in?
A. It is not a question of that. In most circumstances local developments are capable of securing satisfactory management. In some instances the local boards of directors come to us and appeal to us --

Q. The ones that have made mistakes, or are having a hard time? A. Yes, or the ones that enter into major developments right at the beginning, and have not developed expert management personnel or direction.

Q. And they look to you as a sort of more experienced organization to give them these agreements, so that if you step into the picture at all you can step with some authority?
A. That is right.

Q. Then you have one more, a business service and supervision agreement. What does that add up to? First you have the management agreement, and then you have a second one, business service and supervision. Is that for the same people with whom you have the management agreement, or is it more extensive? A. It may be slightly more extensive.

Q. But not a great deal? A. No.

Q. As it says, it is merely an agreement whereby you render the services set out in the agreement? A. Yes, sir.

Q. Under either of those agreements, the management or supervision agreements, do you get any pay for it? Do they pay a fee? A. They do not pay a fee. There may be charges in respect to the management agreement.

Q. Well, is there? A. Yes, in some instances.

Q. On what basis does the parent company get revenue by reason of these agreements? A. On the basis of cost of its management. Not in every instance, but in some instances it is on the basis of cost.

Q. I suppose it is pretty difficult to keep accurate cost accounts to show just how much of a man's time or how much of the office rent or whatnot should be charged up. It has to be an approximate method? A. Yes.

Q. And you seek to work it out so that it will just reimburse the parent company? A. Never more than that, and it never does reimburse fully.

Q. During the entire history of this company it has been making income tax returns, ever since there was an income tax act, since 1919? A. Yes.

Q. And whenever you have earned any income you have paid income tax. Right? A. Right.

Q. As assessed and finally adjusted between you and the department? A. That is right.

Q. On what basis or on what amount have you been paying income tax? What has been treated as income on which the income tax has been calculated and paid? A. We have based our statements for income tax on the net earnings of the company, after patronage dividends have been paid, both patronage dividends to affiliates and commodity dividends to cream patrons and to egg shippers, and other incidentals from year to year; on the remaining earnings of the company.

Q. In other words is this a fair way to put it, that you have treated your patronage dividends as a cost item?

A. Yes.

Q. It amounts to that? A. Yes.

Q. It has been allowed as a cost, and you have paid income tax on the balance of your income, whatever it is?

A. That is correct.

Q. You have a certain amount of common shares outstanding that have been paid for. We have been over that. About how much is that, in round figures; the common share capital outstanding? A. In round figures, 85,000 shares.

Q. At \$25? A. No; no par value.

Q. What were they issued at? What did they net in cash to the company, do you know? A. In the new issue --

Q. What you have at the present time; I do not care whether it is new issue or old issue. A. The capital of the company was established at \$361,000. There were no par shares offered, and the old issued ones, up until 1944.

Q. The value of the shares, then, is \$361,000, divided by the number of shares? A. Yes.

Q. And you pay interest on that? A. Yes.

Q. At what rate? A. At the rate of five per cent, on the basis of \$5 shares. The original capital invested away

back in 1920 was \$12.50 for each one of those shares, so that some people think it is two per cent on the original \$12.50.

Q. The point is that you pay annually five per cent on the \$300,000, whatever the amount is? A. We have paid it currently now for ten years or so.

Q. Do you deduct the amount so paid as part of your expenses, before you pay income tax? A. No.

Q. You pay income tax on that? A. That is right.

Q. What about the preference shares; have you been paying any interest on the preference shares? A. Yes, five per cent; and they are issued at \$5.

Q. And is that deducted before you pay income tax?

A. This last year is the first year they have been issued. I suppose it will be settled by the income tax authorities and ourselves finally, so I cannot give you an answer.

Q. Just one other thing. Have you any instructions, any letters or rulings from the Income Tax Department, authorizing as such the charging up of these patronage dividends as operating costs, so that you will not have to pay income tax on them? Did you ever take it up with the department and have them settle the matter, as a matter of principle? A. We had clearance, I believe, until 1939 or maybe 1940, since away back.

Q. That is, it never became an issue up until then?

A. There have been adjustments, but the principle was accepted.

Q. Then what happened; did some change take place then?

A. Since 1939 and 1940?

Q. Yes. A. Not that I know of. I presume the income tax authorities just got behind in it.

Q. It has never become a question that you have taken up with the department and had an understanding about, as to whether you should or should not, or anything of that sort?

A. No.

Q. This company, throughout its history, has developed and acquired a great many fixed assets, has it not? A. Yes.

Q. Have they all been financed out of the money raised by the sale of shares, plus bank borrowings? A. That is right.

Q. You have not acquired any of these out of money held back from shareholders or patrons, which otherwise would have been paid to them? A. There are no deferred patronage dividends.

MR. FRANCIS: Just before my learned friend Mr. Fillmore cross-examines, there is one point I should like to mention, my Lord. Last night a request was made for the right to have access to all of the exhibits filed. I readily consented to that, with the exception of the financial statement. This is one company which is not required to file financial statements with any government department, and I should like the same ruling made as has been made in a number of cases, that it is filed for the information of the Commission and not for the public.

BY MR. ELLIOTT:

Q. May I ask one question on the last point brought up by Mr. Parker. I see you report that the income tax for 1944 was \$29,000. Did you receive an assessment notice confirming that amount? A. I could not answer that.

Q. So you do not know for how many of these years the income tax figure put down has been actually assessed and

confirmed? A. I believe they have been confirmed up until 1939 and maybe 1940. I do not believe they have been confirmed beyond that.

Q. And in 1939 you paid no patronage dividends; that is to say, from 1935 to 1939 inclusive you paid no patronage dividends? A. That is right.

Q. So you are not sure whether you have actually been assessed recently in a year in which you claimed the deduction of patronage dividends? A. No. The records would indicate that.

BY MR. ARNASON:

Q. At page 3 of your brief, in the third paragraph, you state that the United Farmers Co-operative Company acts as the wholesale purchaser of farm supplies for some 68 co-operatives and 44 unincorporated farmers' clubs. I suppose these farmers' clubs have rather a small membership, or could you tell us how their membership averages, as compared with your incorporated affiliates? A. There is considerable variation. I would say that at one time the 1,500 farmers' clubs in the province had an average membership of 40 each. Some of them had 200, and so on. Those have disappeared, and to-day there is only the rare exception where the farmers' club still conducts its operations on a large membership basis. There are perhaps half a dozen or so that have one or two hundred members. On the other hand affiliates will range from a relatively small number of members or shareholders to as many as 1,200 or 1,300 members at Peterborough, 600 or 700 at Barrie, 500 or 600 at Perth, and so on.

Q. Are your affiliated members usually incorporated with share capital, or are some of them organized on a membership fee basis? A. They are on both. In Ontario

we have been moving toward a membership and loan unit structure rather than a share capital structure, but quite a number of prior incorporations were on a share capital basis.

Q. In these loan units, is the member required to loan funds to the association as long as he remains a member, or what provision is made for repayment? A. There are some variations in the by-laws between the different incorporations operating on the loan unit basis. The by-laws determine the terms upon which the loans are made. To put it very briefly, I am not proposing to cover every ramification but I would say there are three types of loan. There is cash put up by the individual member; there is dividends earned by the local association, which may be allocated to him under by-law and under agreement. There may be wholesale dividends which in turn are passed back to the local association but are invested in common stock, which obviously must be passed on to the individual member as a loan, because he does not get the cash. I believe in most instances now, most of the new corporations, there is this restriction, that they will not redeem more than ten per cent in any one year of their members' loans.

Q. Are some of your affiliates which were incorporated on share capital being reorganized on a loan unit basis?

A. Yes, there is a marked tendency in Ontario in that direction.

BY MR. NADEAU:

Q. Are any of your shares, common or preferred, traded on the stock market? Do you know that? A. No, they never have been listed on the stock market.

Q. But on the unlisted market? A. At one time they were quoted in the unlisted stocks, but when we got the private bill through and the directors controlled the transfer or had

to approve the transfer of shares, that pretty effectively stopped any scalping in the stock market.

Q. Is it entirely stopped now? A. Yes, I would say entirely stopped, with the exception that a broker may, on rare occasions, find himself in possession of some shares from some outside estate, or the solicitor for an estate, in which event he gets in touch with us.

Q. Did you float any bond issue? A. We never floated a bond issue.

Q. Since when has your affiliation agreement been in force? A. The affiliation agreement has been in force since 1934 or 1935. There have been some alterations in it, as you will see, because we could not issue this \$500,000 of common stock until we had authorized capital to issue it from.

BY MR. FILLMORE:

Q. Mr. Scott, did I understand that your turnover is \$40,000,000 a year? A. Roughly.

Q. And where is your head office? A. In Toronto; 22 Duke Street.

Q. And what departments do you have? I do not just understand into what departments your business is divided. Have you, for example, a live stock marketing department? A. A live stock commission department.

Q. That is one. What others? A. We have creameries, seven creameries; a fertilizer division; farm supplies; electrical goods; seeds, feeds and premix, which is closely related to feeds; eggs and poultry and farm products such as potatoes, hay and some miscellaneous items.

Q. As live stock commission agents do you merely market the cattle which are sent in by local co-operatives and remit

to them the entire proceeds less a fixed commission? A. That is right.

Q. So there are no patronage dividends there, are there?

A. It would be impossible to distribute them.

Q. I am just asking you. You just give a man back the proceeds of the sale of his cattle, less a fixed commission?

A. That is right.

Q. So there is no patronage dividend connected with that? A. No.

Q. Is there any other case in which you act purely as a marketing agency, where you simply sell the products in their original form and send back the money to the producer?

A. No, I do not believe there is any other commission basis.

Q. You have seven creameries? A. Yes.

Q. I presume you manufacture butter, dry milk, ice cream and so on in one or more of them? A. That is right.

Q. And do you keep a separate set of books for the creamery business? A. Yes, they are set up under a separate department.

Q. And do you pay what you call patronage dividends in respect of your creamery department? A. No, not in respect of the creamery department but in respect to each creamery branch, because the local conditions may vary.

Q. In Ontario have you a milk board which fixes the price of milk and cream, the price paid to the producer?

A. We have a milk control board operating a milk control act in Ontario, but they do not fix the price of cream except when it is derived from milk delivered in the can. In other words cream is not fixed in respect to price.

Q. You pay the same initial price to the producer that is paid by other creamery companies? A. That is right.

Q. Then you take the product and it is processed in the

creamery, and when do you determine whether you can pay patronage dividends to the producer? When do you decide that? A. We decide it when it is earned; and it is earned in different months in different years.

Q. Could we not put it in this way. Until you get your profit and loss statement at the end of the year you do not know what earnings you have had from the creameries? A. That is right.

Q. So you have to wait until the end of the year to see what earnings you have had; then you decide how much you can distribute. Is that correct? A. Yes, although we may operate two pool periods in a year, on occasion.

Q. Well, either annually or semi-annually? A. Yes.

Q. And is the amount which you pay by way of patronage dividends solely in the discretion of your company, the main company, the directors? A. The amount is solely in the discretion of the board of directors, obviously; but there is an obligation to pay in the Ontario act, and in the charter, and in our by-laws, and also an obligation to pay by custom and practice over twenty-two years.

Q. But what is the statutory obligation? A. The statutory obligation?

Q. Does it say how much you should pay? A. It says that we shall distribute the remaining net surplus annually.

Q. Less what? Less necessary reserves and expenses? A. Yes.

Q. The amount of which is in the discretion of the directors? A. No. The maximum amount is set out under Part XII of the Companies Act. Within that limitation it is in the discretion of the directors.

Q. And the directors decide what are the necessary

expenses and reserves, do they not? A. Yes.

Q. So that what comes back to the producer is the net result of your year's or half year's operations? A. That is right.

Q. You have bought the goods; you have manufactured them; you have sold them, and you have had so much left?

A. That is right.

Q. And the more you pay in the way of patronage dividends, the less earnings the company itself would have?

A. That is right.

Q. So that the amount of patronage dividends which you would pay would have a direct bearing on the amount of income tax you would pay? A. That is obvious.

Q. What about the fertilizer division? Is that a manufacturing plant? A. Partly, and partly to sell all ingredients for home mixing, or local mixing. There are some dozen or more local mixing plants in Ontario that were sponsored by the United Farmers Co-operative Company, and then there is the large or relatively large manufacturing central plant.

Q. And how do you decide the place at which you will make your sales to the local co-operatives? A. It is decided for us by the Wartime Prices and Trade Board, by the fertilizer administrator. The price is arbitrarily set, and has been for several years.

Q. And do you have anything left at the end of the year? Do you make a profit on your earnings in respect to that business? A. Yes.

Q. But you cannot then make a rebate to the purchasers?

A. Yes, we make rebates to our affiliates.

Q. And the amount of those rebates is determined at the

end of the year, after you have learned the result of your year's operations? A. That is correct.

Q. And that same principle applies throughout your different departments? A. All farm supplies.

Q. And in some cases you act merely as purchasing agents, do you not? In some cases I understand that you act merely as purchasing agents; you buy farm machinery for the local co-operatives? A. That is right.

Q. And do you charge the local co-operatives the exact price which you pay for the articles? Supposing you get an order for farm machinery. Do you bill your customer with the exact cost price, or do you charge him more? A. No; we charge the current retail price.

Q. And consequently you have a margin between the cost price and the selling price? A. That is correct.

Q. At the end of the year you get out a profit and loss statement, and you find what the result has been, whether there is any money left? A. That is right.

Q. Then you decide how much of that you will pass on to those who purchased from you? A. Yes.

Q. And the amount of that is in the discretion of the directors? A. Within the statutory limitations.

Q. So that to some extent your liability for income tax would be determined by the amount of patronage dividends which you paid? A. That is right. It has been.

Q. You say you have about 100 affiliated local associations? A. Something over 100.

Q. How would you classify them into different kinds of producers and consumers, selling or buying? A. These 100 odd affiliates are all operating under this purchasing agreement, and in addition to that you have shipping associations, but

they are not included. This is the purchasing affiliation agreement that I referred to in speaking of the 100 or more. It is largely farm supplies.

Q. So that most of your 100 affiliates buy their farm supplies from you? A. That is right.

Q. And that is your main business, is it? A. No, I would not say that; but in relation to these locals it is the main business.

Q. Leaving out the live stock business? A. That is right.

Q. And that margin, the difference between the buying price and the selling price, is applied to the purchase of stock in your company? A. It may be, under agreement, when agreed to. It may be paid in cash, as in the case of eggs and poultry. It may be paid in cash in the event of cancellation of an affiliation agreement in a year.

Q. But your practice in the past few years, as I understand it, has been to use that difference in having the affiliated company buy stock in your company. That is where the money has been going; and you call that a patronage dividend to the affiliated company, and you have been deducting all those patronage dividends as operating expenses when making your returns to the government? A. That is correct.

Q. And to some extent, in any event, the amount of patronage dividends which you have paid has been in the discretion of the directors? A. I would say only in regard to the practicability of paying a given amount. By that I mean that the board of directors have always felt obligated to do it. The Act says they must distribute it; but there are certain practical difficulties in distributing, shall I say, for instance a patronage refund of four cents a head on

cattle. It is impracticable to do it; it cannot be done.

Q. We are not talking about cattle; we are talking about other things. In distributing these patronage dividends, do you take the result of all sales to all locals? You get orders, we will say, to buy machinery, from 100 different locals. In keeping your books, do you keep those separate? What I am getting at is this. Do you pay a different rate of patronage dividends to different locals, or do they all get a flat rate? A. We pay the same rate of dividend on the same class or kind of goods to all locals or members.

Q. You must have a hundred different kinds of goods. You do not mean to say -- ? A. We may pay them on --

Q. You do not mean to say that you keep your books so that you know the profit or loss on 100 different kinds of articles? A. Oh, no, we pool the farm supplies, broadly speaking; feed, seed, fertilizer and so on. Then we make another pool for cream, and another one for eggs.

Q. I know that, but a great part of your business is the purchase of farm machinery? A. No, we do not purchase great amounts of it.

Q. You do not handle a lot of farm machinery? A. Not a lot.

Q. You have a separate pool for each separate department, then; is that it? I am just asking you how you keep your books, and how you arrive at the patronage dividends in respect to each department of your business. A. You arrive at the earnings by departments, and you pool them in respect to all farm supplies for purposes of payment to your affiliates under an affiliation agreement.

Q. So that all farm supplies are lumped together, and

you strike a rate? A. Yes.

Q. And you pay that flat rate to the different affiliates? A. That is right.

Q. That is based on the volume of business from each one; but actually you do not know how much you made on business received from each affiliate? A. It would be a very cumbersome job to do it; it would be physically very difficult.

Q. What was the nature of the income on which you calculated your income tax? A. Income tax is based on --

Q. Where did you earn the money on which you paid income tax? A. That is a very difficult question to answer, because it varies from department to department, with varying years.

Q. Could we put it this way, that at the end of the year you got out a profit and loss statement, the same as any company does? A. Yes.

Q. In which you have all your overhead and operating expenses. The only difference would be that you charge, as a deductible expense, the patronage dividends which you have saved. That is the only difference between your profit and loss statement and that of an ordinary company? A. That is right.

Q. Do you know whether the local or affiliate associations pay income tax? A. Some of them do. Some of them are exempt, I believe.

Q. You are not familiar with the details of their operations? A. I could not be, with 100 of them.

Q. So that you centralize quite a large business in Toronto? A. A wholesale business must be centralized, of necessity.

Q. A large business centralized in Toronto; and your annual turnover is about \$20,000,000? A. That is correct.

Q. Do you do some advertising in the country in order to get more members? A. No. We do not do advertising for more shareholders in our company. Affiliates, local groups, are coming in. When they organize they almost invariably become an affiliate and a shareholder in the central wholesale, and we do some advertising in respect to cream patrons.

Q. Did you have an advertisement in the March issue of many of the country newspapers in Ontario which was headed, "Co-Ops Bring Money into the Local Community." The advertisement goes on:

"Bona fide purchasing co-operatives are not liable for corporation income tax on the money they pay to their members in patronage dividends. In this they are like four out of five of the merchants on Main Street. Independent merchants and partnerships do not pay corporation income tax."

You have seen that? A. No, I have not seen it.

Q. You do not know about that? A. I know nothing about it.

Q. In 1945 you changed your capital structure so that the obligation to shareholders was to pay interest on the paid-up capital, and I presume you know that in the ordinary profit and loss statement interest is a deductible expense. Assuming that to be the case, I am just putting this to you, that instead of having an obligation to pay dividends to shareholders, which come out of earnings, if you apply those earnings in the payment of interest, which can be classified as an expense, you thereby save that much liability for income tax? A. We do not attempt to.

Q. That was not done for that purpose? A. No, sir.

Q. Never thought of that? A. Never thought of that.

Q. Just thought it was better business to have a fixed

rate of interest than to pay them profits? A. No. The real explanation is that Part XII of the Ontario Companies Act allows a rate of interest not exceeding eight per cent, and does not make provision for dividends; so to conform with Part XII, we used the terminology "interest."

Q. You wanted to come under Part XII? A. We did.

Q. And you did come under it? A. Yes.

Q. And thereby effected a saving in income tax, unconsciously, of course? A. No.

BY MR. FRANCIS:

Q. In regard to the questions asked by my learned friend Mr. Fillmore, he suggested that you wanted to come under Part XII? A. Yes.

Q. That is the co-operative section of the Act? A. Yes.

Q. And so far as you know co-operative statutes throughout Canada always refer to interest?

MR. PARKER: How can this witness answer such a question?

BY MR. FRANCIS:

Q. Are you familiar with the Ontario Companies Act?

A. Yes.

Q. And it uses the word "interest"? A. Yes.

Q. We have heard a great deal about the legislative history of your company this morning. You were president of the company for a number of years. Will you sum up for the Commission in a word what your members, through your company, have been striving for in asking for changes in legislation? Can you do that? A. I would say that for the last fifteen years, by action, by practice and by by-law, we have been attempting to move as closely as possible to the recognized co-operative structure, and it is changing progressively in

this country, at least in the minds of the people; and they move in that direction. In 1943 we applied for the private bill because in 1942 there was an amendment to the Ontario Companies Act, Part XII, which for the first time permitted us to distribute patronage dividends on different kinds and classes of goods. Prior to that the Act legally only permitted the paying of a patronage dividend on the over-all business; one dividend in relation to the volume of goods sent in by shareholders. As soon as we were able to get different kinds and classes of goods, then we had all the advantages we desired and came under Part XII of the Companies Act.

Q. Then you desired in certain cases to pay what I think you called earlier commodity dividends? A. Yes, sir.

Q. That is, you try to approximate as nearly as possible carrying on at cost? A. Yes.

Q. At the time your company was organized in 1914, was there any suitable co-operative legislation in existence in Ontario? A. There was no legislation except the ordinary Companies Act; no co-operative legislation whatever.

Q. Summing up your previous evidence, is it fair to say that the aim of your patrons, that is your patron associations, if I may call them that, is to gain control of your company as rapidly as possible? A. That is right.

Q. That is the aim of the users of your company; to gain control of it on a co-operative basis? A. That is right.

Q. Is that a fair statement? A. That is right.

Q. And I take it that with the \$182,379 that your company has already paid in income tax, this has been paid because you have not conformed entirely to co-operative principles because of that legislation; is that correct? A. That

is correct; that is in the last ten years that amount was paid.

MR. PARKER: I think it is very questionable whether the witness can answer that. How does he know?

BY MR. FRANCIS:

Q. Then I draw attention to the fact that, according to your evidence, your company has paid in income tax \$182,379? A. That is correct.

MR. FILLMORE: I should like to ask one more question, my Lord; just a short one. That chicken-cleaning machine; does that take the feathers off chickens? Will it work on ducks? Will it take the feathers off ducks? I should like to know whether it will work on ducks, and how much it costs. It is the first time I ever heard of anything that would take the feathers off a fowl, and if it will work on ducks I should like to know.

BY MR. PARKER:

Q. There is just one other question I should like to ask you. You spoke about the aims and the strivings of these 20,000 members to do this and that. Do you not think it would be more correct to say it is the strivings and the aims of the directors and the management of the company to do all these things, rather than of the 20,000 members? Do you not think that would be a little more appropriate way to say it? A. I should like to answer that in this way.

Q. Just put the emphasis in the right place, that is all. A. I am trying to do that in fairness to everybody.

Q. I thought my learned friend put it a little too strongly. A. It is quite obvious that with 20,000 shareholders thirty years ago, you will lose track of them; but with the local affiliated groups representing some hundreds

of members, and in turn being members of the central, and being in substantial majority at the annual meeting, they do initiate and originate certainly more than individuals ever did before.

BY THE CHAIRMAN:

Q. The answer is that leadership is required in any undertaking; is that not right? A. Yes, sir.

BY MR. VAUGHAN:

Q. Mr. Scott, you own the Co-operatives Universal Milker plant at Peterborough? A. Yes, sir.

Q. Supposing a member wants to buy one of these milkers. From what you say, you would charge him to start with the regular retail price. Is there any way by which he could know what the net cost is going to be, or is that going to depend upon a lot of other purchases? A. We will sell the local co-operative in his district the milking machine, and they in turn will retail it to him. We are moving as rapidly as we possibly can to only wholesaling milking machines as a company. We would complete it very soon except for what you will appreciate, that there were quotas set in 1941, and we are compelled to observe those quotas, some of which are to private dealers and perhaps to local people. That applies in respect to milking machines, in respect to coal, in respect to fertilizer and in respect to a number of things.

Q. Can the purchaser of that milker be told what it will cost him net when he wants to place an order? A. No.

Q. He does not know? A. No.

Q. That depends upon his total purchases of various articles during the year? A. That is right.

BY MR. PARKER:

Q. I am sorry to rise again, but there is just one

point I overlooked. This company is a member or is connected in some way with the National Co-operative, Incorporated, an international unit in the United States, is it not? A. That is right.

Q. In other words you, in turn, are a member of a big international co-operative? A. That is correct.

Q. And do you attend as a member, through your proper representatives, at the meetings of whatever constitute the members of this international association? A. That is correct.

Q. And take part in their deliberations on policy and that sort of thing? A. Yes, sir.

Q. I notice in your balance sheet as of September 30, 1944, among the assets, an advance to the National Co-operative Incorporated, of \$4,440. What is that for? A. The \$4,440 I believe represented \$4,000 in American exchange. It was advanced to National Co-operative from ourselves as a member, and from the other member wholesales who constitute National to permit them to purchase the Universal Milker Supply Company of Waukesha, Wisconsin. It has been partly repaid, and is simply a loan in the process of being repaid.

Q. But it is an outstanding loan to this international organization of \$4,440? A. Yes, of that date.

Q. And I see an item covering an investment in the National Lumbering Association, Limited; 187 shares. Is that a Canadian company? A. Yes.

Q. Yet it in turn is also a member of the National Co-operatives? A. The Lumbering Association is a corporation in British Columbia, incorporated by the members of National Co-operatives.

Q. It is a subsidiary, so to speak, and entirely

controlled by the National Co-operatives? A. Yes; it is a subsidiary.

Q. And your Ontario company is the holder of 187 shares in that National Lumbering Association? A. That is correct.

Q. Why? How does it work out to the advantage of your farmers to have an investment of \$18,700 in a lumber company?

A. Shingles are an important factor in farm supplies. We find it very difficult to get shingles, and the physical assets represented by the National Lumbering Association are the physical assets that were owned by the people from whom we have bought shingles there for twenty years. Gradually the American co-operatives and ourselves acquired the ownership.

Q. The only point in my raising it is to show that this company of yours has very wide ramifications in the business world of this country? A. Yes.

Q. And extends over into the United States, in the international field? A. That is correct.

Q. Have you any similar connection with the Scottish or English wholesalers? A. No structural connection; a friendly association.

Q. Do you do business with them? A. No.

Q. Have you sought alliances with the Scottish or English, in the same way? A. A small business, yes.

Q. What type of business do you do? A. We have bought considerable quantities of tea from the British co-operative wholesale.

Q. You get better prices from them, I suppose, or you would not be buying? A. I do not know. Perhaps it is better tea.

MR. FILLMORE: Part XII of the Ontario Companies Act, Section 141, provides that -- "division, as the by-laws may

provide, of the remaining surplus, provided that on crediting such distributed amounts, the payment of the amounts so credited may be deferred by the directors and the money retained or used for the purposes of the corporation."

THE CHAIRMAN: That concludes this case, does it, Mr. Parker?

MR. PARKER: Yes, Mr. Chairman. You will recall that we had tentatively arranged to have the fruit companies yesterday, but for the convenience of counsel it was put over. We also intimated that if at all possible we would take up the Canadian Chamber of Commerce this afternoon. I do not know whether their representative is present, but what I had in mind, if it is satisfactory, is that we might proceed with one of the fruit companies which was to be ready this morning, and I anticipate the examination will not be very extensive. Perhaps we can finish that before we take on the Chamber of Commerce later this afternoon, in order to utilize our time to the best advantage.

MR. MILLIKEN: Mr. Chairman and gentlemen, I am appearing on behalf of the Associated Growers of British Columbia. Mr. Kinnard, who is the secretary-treasurer of the company, will read the brief and give evidence, but before he goes into the box I might point out that the Associated Growers of British Columbia handle fruit and vegetables. They are a co-operative selling agency. They sell fruit for some 21 local co-operatives, and some independent people, some individuals. Mr. Kinnard is going to give you the set-up of Associated Growers and of one of the local associations. It is all in this brief, and I think this may make it easier

for you to follow him, if you know this before he commences reading.

KENNETH W. KINNAIRD,

Secretary-Treasurer,
Associated Growers of
British Columbia,
having been duly sworn
testified as follows:

BY MR. MILLIKEN:

Q. Mr. Kinnaird, the Associated Growers of British Columbia were incorporated in 1923? A. Yes.

Q. And you have been secretary-treasurer ever since the incorporation of the company? A. I have.

Q. And you prepared this brief that you are now going to read? A. I did.

Q. Did any of the directors of the company see it? A. Yes, they have all seen it.

Q. And have they approved of it? A. They have approved of it; yes.

Q. Did any of the local associations which are members of the Associated Growers also see it? A. A copy was submitted to all our local associations.

Q. Have you heard from them all in regard to it? A. No, I would not say I have heard from them all. It has been received and accepted by them all.

Q. You say it has been received and accepted? A. Yes.

Q. How do you know it has been accepted?

BY THE CHAIRMAN:

Q. No objections, I suppose? A. In some cases by no objections, and in others, approved.

BY MR. MILLIKEN:

Q. Would you mind reading the brief for us? A. The brief is as follows:

"This submission is presented by and on behalf of the Associated Growers of British Columbia Limited and twenty-one affiliated fruit and vegetable packing and shipping houses. As a matter of convenience, these affiliated associations are termed "Locals." The names and locations are as follows:

The Vernon Fruit Union,	Vernon
Kelowna Growers' Exchange,	Kelowna
Westbank Co-operative Growers' Association,	Westbank
Summerland Co-operative Growers' Association,	Summerland
Naramata Co-operative Growers' Exchange,	Naramata
Penticton Co-operative Growers,	Penticton
Kaleden Co-operative Growers' Association,	Kaleden
Oliver Co-operative Growers' Exchange,	Oliver
Osoyoos Co-operative Fruit & Vegetable Growers,	Osoyoos
Keremeos Growers' Co-operative Association,	Keremeos
Burton Co-operative Growers' Exchange,	Burton
Crawford Bay & District Co-op. Association,	Crawford Bay
Fauquier Co-operative Union,	Fauquier
Harrop Co-operative Packers' Union,	Harrop
Kaslo Co-operative Union,	Kaslo
Nakusp Growers' Co-operative Union,	Nakusp
Queens Bay Co-operative Association,	Queens Bay
Renata Co-operative Union,	Renata
Robson Co-operative Exchange,	Robson
Sunshine Bay Co-operative Association,	R.R.1., Nelson
Willow Point Fruit Growers' Association,	R.R.1., Nelson

"The Associated Growers of British Columbia Limited came into being early in 1923, the Certificate of Incorporation being dated the 8th day of March in that year. The company

was incorporated as 'Co-operative Growers of British Columbia Limited,' under the Companies Act of British Columbia, but, on the 28th day of June, 1923, the name was changed to 'Associated Growers of British Columbia Limited.' It was intended that the operations of the organization should be entirely on a co-operative basis but, at the time of inauguration, it was deemed advisable to incorporate under the Companies Act rather than the Co-operative Associations Act, our advisers holding that it would be more practical to carry out the scope of operations intended if incorporated in this way."

Q. You have a copy of the memorandum which you are prepared to file, have you? A. Yes, I have.

Q. This exhibit is a copy of that memorandum? A. Yes.
HISTORICAL

"After this introduction, we think it would be advisable to turn back and give a brief history of co-operative effort in the Okanagan Valley of British Columbia during the years previous to the Associated Growers coming into being.

"Co-operation in the fruit industry in British Columbia has existed in some form more or less since the first fruit was produced in the province. An organization known as the Okanagan Fruit Union Limited was established in November, 1908. Business was commenced in the spring of 1909. The head office was in Vernon, with packing houses at that point and in Summerland, Peachland, West Summerland and Penticton. The principle of co-operative operation was enunciated in the following paragraphs contained in the prospectus:

"'With a strong united body of producers, working under one management and having a full knowledge of the amount of fruit they can place advantageously in a fresh state each

season and also of the amount they will have to dispose of, and with the power of placing all the supplies on the market, either in a fresh state or manufactured, it appears to the directors that they would be in the best possible position to get the utmost value for their produce. The directors of the Union therefore propose that the producers themselves as a body, not individually, take the risk of the markets by disposing of their fruit through the Union and see that their interests are properly looked after by appointing representative men from every centre to the Board.'

"As regards the cost of running the business, it is proposed that the charges for packing, etc., should, as already stated, be set at a figure to merely cover cost and that commission at the rate of 10 per cent should be charged on all commission sales, which charge, it is thought, should cover the cost of running the Union in the first few years, but, until experience has been gained and the turn-over gauged, it is not possible to fix a rate with certainty to exactly cover cost. To avoid any possible hardship, therefore, it has been decided that, should it be found that, after paying all expenses, including a dividend of 6 per cent, and laying aside reasonable sums to reserve, a sufficient sum still remains from revenue from commission sales to make it feasible, such sums should be returned to the growers in exact proportion to the values of the shipment made by such growers. By this arrangement, growers should be assured of getting their fruit handled, packed and marketed to the best possible advantage and at the lowest possible cost.'

"This organization operated for four years, but returns to the producer during that period were disappointing, the

Union apparently did not have sufficient tonnage to carry on in a reasonably economic way, so finally decided to go into liquidation in the spring of 1913. As an indication of the conditions prevailing at the time, we quote from an article written by the late Thomas Dowell, a director of Okanagan United Growers Limited:

"At the opening of the year 1912 conditions of the fruit growing industry in the Okanagan Valley were such that close observers viewed with alarm the probable results of the immediate future. Hard work, small returns, combined with the fact that growers were at the mercy of the shipper who, in many instances, would only take what fruit he had orders for, and then at a "take or leave" price, were the chief items confronting the grower. Hitherto no concerted effort worth mentioning had been made to place the fruit produce of the Valley on the market. Prospects were gloomy everywhere. It was evident something had to be done to avoid disaster. More especially was this state of affairs applicable to the small grower. With the man who produced on a large scale, it was different. He was in a more independent position, being able to some extent to find his own market. Even here his opportunities were very limited. Growers who joined forces for selling purposes found difficulty in keeping their heads above water. Along these lines the Okanagan Fruit Union, with headquarters at Vernon, probably accomplished the best work."

"It is evident that competition amongst those then interested in the shipping of fruit was creating a serious situation and in the spring of 1913, when the Okanagan Fruit Union Limited discontinued operations, a number of the larger growers of the district got together with the idea of

establishing local co-operative units throughout the district, with sales to be handled through one organization. It was felt that there was imperative necessity of earnestly trying to eliminate local competition at the selling end of the fruit business, as well as to unite growers through one organization, so that mixed cars of produce might be supplied as required by the trade.

"One of the main difficulties was that of finance. The growers generally were not at the time in a position to finance their own organizations, so that it was decided to seek outside assistance. The provincial government was approached and they finally consented to make a survey of the whole situation. Meetings were held throughout the territory, when the principle of co-operation in marketing was stressed. Decision was reached at every point to form a local unit of the proposed co-operative organization. The government, in order to meet the situation, amended the Agricultural Associations Act, so as to enable the new organizations to function properly thereunder, and they agreed to advance to those organizations up to 80 per cent of the subscribed capital payable within 20 years, with interest at 4 per cent per annum.

"With the formation of these local associations, the Okanagan United Growers Limited came into being as the central selling agency. The first meeting of the board of directors of that organization was held on May 22nd, 1913. While it was incorporated under the Companies Act, it was a co-operative, non-stock, non-profit, central selling agency. The capital consisted of 26 shares of \$1.00 each, issued to the locals for voting purposes. The working capital of the organization was acquired by deducting from the grower's returns 2 per cent of the selling price, for which he was

issued bearer bonds or notes carrying interest at 5 per cent per annum, repayable in five years. The cost of operation was covered by a per package charge. The local associations affiliated in 1913 were as follows:

Kelowna Growers' Exchange,	Kelowna, B.C.
Penticton Fruit Growers Union,	Penticton, B.C.
Peachland Fruit Growers Union,	Peachland, B.C.
Enderby Growers Association,	Enderby, B.C.
Summerland Fruit Union,	Summerland, B.C.
Armstrong Growers Association,	Armstrong, B.C.
Vernon Fruit Union,	Vernon, B.C.
Salmon Arm Farmers' Exchange,	Salmon Arm, B.C.

"Later on, the Grand Forks Co-operative Exchange and Walhachin Co-operative Association joined the group.

"The objects were to stabilize the market by having control of a large percentage of the crop in the organization, to obtain standardization of the pack and secure wider distribution of the fruit, and to perform all such functions which are characteristic of co-operative institutions in their work of rendering mutual aid to its members.

"Sales for the year 1913 amounted to \$448,292.33. By 1919, sales had reached a figure of \$2,050,479.21. It should be emphasized that all of the local associations were self-governing and in turn controlled the marketing organization, each unit holding one share in that company, and the directors being named by the local organizations or the growers thereof.

"This organization carried on with varying success from 1913 to 1922. Conditions were such, however, that many difficulties arose. A great many private organizations were operating throughout the territory, competitive practice and economic conditions had a very detrimental effect on the

returns to the growers and in many instances debits were received by them instead of credits. This naturally caused unrest and dissatisfaction with the methods in vogue at the time. This dissatisfaction centralized more on the marketing unit, the Okanagan United Growers Limited, than on the local associations.

"In consequence, a movement became general amongst the growers to endeavour to improve the situation, particularly along the lines of eliminating disastrous competitive methods and increasing the support of the co-operative associations. A general conference was held on December 6th, 1922, growers from all districts attending, and from that conference a committee was instituted, charged with the duty of re-organizing the whole operation. This committee carried on until the spring of 1923 and succeeded in bringing into the co-operative operation 85 per cent of the tonnage of tree fruits grown in the province. The local associations previously affiliated with the Okanagan United Growers Limited, remained in operation, new associations were formed at other points in the Okanagan and in the Kootenays and Arrow Lakes districts, and the Co-operative Growers of British Columbia Limited, later the Associated Growers of British Columbia Limited, was brought into being.

"It was decided that it would be necessary to replace the Okanagan United Growers Limited by a new marketing organization, in view of the prejudices which had arisen against the previous organization. At the same time, arrangements were made to take over the operations of practically all the privately owned fruit shipping houses in the district. A holding company, subsidiary to the Associated Growers of British Columbia Limited, was formed, the duties of that

company being to assume title to all the properties acquired from the independent operators, and gradually arrange for the assimilation of those properties amongst the co-operative associations, or dispose of and divert same to other activities.

ASSOCIATED GROWERS OF BRITISH COLUMBIA LIMITED

"The objects for which the company was incorporated were broad in their scope. It was felt that this should be, in view of the magnitude of the anticipated undertaking. The fruit production of the territory was developing to such an extent that it was deemed advisable and necessary that we should go into all the markets of the world in order to dispose of our fruit on a profitable basis. Briefly, the objects of the company are outlined in the following paragraph taken from the Memorandum of Association:

"(a) To promote by all lawful means the sale of fruit and vegetables, and all agricultural and horticultural products, and for that purpose to enter into agreements or other reciprocal arrangements with all persons, associations, firms or corporations growing, producing, handling or concerned in the growing, producing or handling of agricultural and horticultural products, for the disposition and sale of same, with a minimum of expense, directly where possible, to all wholesalers, retailers and consumers thereof to the end and purport that the farmers, fruit-growers and producers may obtain ready markets with a maximum of returns."

"In order to emphasize the co-operative nature of the organization and to ensure that, in the case of discontinuance of the Co-operative, any undistributed surpluses should be refunded to the producers of those surpluses, an amendment was made to the Memorandum of Association, which reads as follows:

"(o) The income and property of the company shall be

applied solely towards the promotion of the objects of the company as set forth in this Memorandum of Association; and no portion thereof shall be paid or transferred, directly or indirectly, by way of dividend, bonus or otherwise howsoever by way of profit to the shareholders of the company: PROVIDED that nothing herein shall prevent the payment, in good faith, of remuneration to any director, officer, or servant of the company, or to any shareholder of the company, in return for any services actually rendered to the company: PROVIDED FURTHER that if upon the winding-up or dissolution of the company there remains after satisfaction of all its debts and liabilities any property whatsoever, the same shall not be paid to or distributed among the shareholders of the company, but shall be given to or transferred to or distributed among the co-operative associations, companies, partnerships or persons for which the company at the time of its winding-up or dissolution shall be acting as sales agents in proportion to the amount of selling charges collected by the company from each of said co-operative associations, companies, partnerships or persons, from the date of the incorporation of the company to the date of its winding-up or dissolution. BUT SUBJECT ALSO to the rights of any of said co-operative associations to participate in the distribution of any reserve fund or funds established by the company under contracts with said co-operative associations in accordance with the terms of said contracts.'

"The nominal share capital was placed at \$10,000, divided into 10,000 shares of \$1.00 each. A board of directors controls the activities of the organization and this board is elected by the growers of the different affiliated associations, each association or group of associations being represented on

the board. The original number of directors was placed at 19."

I might say that at the present time this number is 15. "Each director holds one qualifying share in the company. The total paid-up share capital is, at the present time, \$56.00.

"A Tri-Party Marketing Agreement was entered into by the grower, the local and the marketing agency. This agreement originally was for a term of five years; later, on the expiration of the five-year period, it was changed to the basis of a continuous agreement but could be cancelled by any of the parties, by giving notice of cancellation previous to March 31st in any year. A copy of the original agreement and of the amended form is appended hereto.

"This organization has been in continuous operation since incorporation, or for a period of nearly 22 years, and with what might be termed varying success throughout those years. As was previously mentioned, at the inception 85 per cent of the fruit grown was under contract. This picture gradually changed, however; private interests again came into being, dissatisfaction amongst individual growers arose and in consequence the percentage of the tonnage handled was finally reduced to from 45 per cent to 50 per cent of the whole.

"Markets were developed throughout the world, so that during the years preceding the second Great War we were exporting apples to a great many countries. In the first year of our operation, we shipped 3,132,182 packages of fruit, in addition to vegetables, with a total value of \$3,279,609.69, and during that year exported to nine countries, Great Britain and the United States being the largest customers. Ten years later, we shipped the equivalent of 2,836,371 packages of

fruit, together with vegetables, and were exporting to nineteen countries. During the season 1938, the last complete before the war, we shipped a total of 3,095,638 packages of fruit, together with vegetables, and exported to twenty-one countries. Our total shipments during twenty-one completed years of operation, expressed in carloads, are as follows:

<u>Year - No.Cars</u>	<u>Year-No.Cars</u>	<u>Year-No.Cars</u>	<u>Year-No.Cars</u>
1923, 4,212½	1928, 4,463	1933, 2,982¼	1938, 4,049½
1924, 3,080	1929, 3,388	1934, 3,742	1939, 4,325
1925, 3,032	1930, 4,041	1935, 3,546	1940, 4,197
1926, 4,639	1931, 3,021	1936, 3,126	1941, 3,805
1927, 3,622	1932, 3,861	1937, 3,953	1942, 4,455
			1943, 3,283

"During the crop year 1944, we will handle approximately 5,500 carloads.

"Our total volume of business for the year ending March 31st, 1943, amounted to \$4,837,357.80. It should be noted that this was a particularly small crop year.

"In addition to the marketing of fruits and vegetables, we purchase collectively certain supplies for our local associations, such as packing materials and insecticides. We also look after other services, such as group insurance over all buildings, equipment and stocks of affiliated locals.

"Our total grower membership has varied throughout the years; at the present time, we have 1,573 contracted growers. These growers are, of course, all members of our local associations."

I should amend that, if I may. I mention that all are members of our local associations, but there are a few exceptions. In the Kootenay and Arrow lakes district there are a number of growers scattered around where it is not possible

to form local associations, and in those cases we are handling that fruit direct for these growers. Possibly there would be approximately 50 growers involved in that.

FINANCIAL

"The original marketing agreement entered into with all growers, empowered the co-operative to dispose of, to the best possible advantage, all fruits and vegetables produced by the grower, to deduct from the proceeds thereof all expenses in connection with the sale of such produce and in addition the co-operative might deduct 1 per cent of the gross selling price as a commercial reserve to be used for any of the purposes or activities of the local and co-operative. The co-operative was empowered to pool the returns of fruits and vegetables and account to the growers on a uniform basis.

"Deduction for the commercial reserve was made during the first three years of operation, the total amount deducted being \$89,747.47. Out of this, disbursements were made totalling \$43,713.67, leaving a balance of \$46,034.10. Provision was made by the contract for the disposal of any balance of commercial reserve in the event of dissolution of the co-operative or withdrawal of any local from the group. The current balance standing in the commercial reserve is ear-marked for all locals in the proportion contributed. The main proportion of disbursements mentioned were made in connection with the disposal of the properties taken over by the Growers' Packing Houses Limited, the holding company set up for that purpose.

"We have marketed the produce of our growers, pooled the proceeds, as empowered to do, deducted therefrom the costs of operation and distributed the balance to the growers through our locals on a uniform basis, all locals being returned the

same amount per box, or other unit, for like variety and grade.

"Our operations have always been on a cost basis. The selling or handling charge has been fixed at the commencement of the season and the difference between that charge and the cost of operation rebated on a pro rata basis to all growers through our locals, with the exception of small amounts which have been, from year to year, carried to surplus account. This account totals, at the present time, \$15,455.88. The prime object has at all times been to further the interests of its grower members by producing for those members the best results which it is possible to obtain, and with no thought of profits as an organization."

I have a statement giving a breakdown of that \$15,455.88, which I submit.

"TAXATION

"During the first three years of operation, we were called upon to pay a personal property tax to the provincial government. This amounted in all to \$144.03. For our fiscal year ending March 31st, 1927, we were assessed and called upon to pay to the Dominion Income Tax Department the sum of \$76.53, and, in the next year, \$122.57. This total amount, however, was later refunded.

LOCAL ASSOCIATIONS

"On the commencement of operations in 1923, there were 33 affiliated associations, being as follows:

- Shuswap Lake Co-operative (Union) Growers
- Salmon Arm Farmers' Exchange
- Armstrong Co-operative Growers' Exchange
- The Vernon Fruit Union
- Winfield Co-operative Growers
- Kelowna Growers' Exchange

"Westbank Co-operative Growers' Association
Peachland Fruit Growers' Union
Summerland Co-operative Growers' Association
Naramata Co-operative Growers' Exchange
Penticton Co-operative Growers
Kaleden Co-operative Growers' Association
Oliver Co-operative Growers' Exchange
Grand Forks Co-operative Growers' Exchange
Keremeos Growers' Co-operative Association
Willow Point Fruit Growers' Association
Bonnington Fruit Growers' Association
Robson Co-operative Exchange
Sunshine Bay Co-operative Association
The Boswell Fruit Growers
Fauquier Co-operative Union
Needles Co-operative Growers' Union
Crawford Bay & District Co-operative Association
Harrop & District Co-operative Association
Burton Co-operative Growers' Exchange
Nakusp Growers' Co-operative Union
Carrols Co-operative Growers' Union
Balfour Co-operative Association
The Co-operative Fruit Growers Association
of Wynndel, B.C.
Creston Co-operative Fruit Exchange
Appledale Co-operative Fruit Growers' Association
Winlaw Farmers' Institute
Kaslo Co-operative Union

"In 1932, Queens Bay Co-operative Association was added, and in 1934 Osoyoos Co-operative Fruit & Vegetable Growers came into being.

"It will be noted that, of these affiliated locals, seven commenced operation in 1913 and continued on as locals of the new group, the others being instituted on re-organization. In the course of time, some names have been changed and, in addition, some locals have discontinued operating; a few others have severed their connection with the main affiliated group.

"All locals are incorporated under the Agricultural Associations Act, or the amended Co-operative Associations Act of British Columbia, and, while their actual procedure of operation may be varied, in the main their aims and objects are identical. The prime function of a local association is to receive, pack and ship its growers' produce and return to those growers as high remuneration for that produce as possible.

"As has been mentioned previously, a number of these local associations were incorporated in 1913 and were assisted in financing by loans made to them by the government of British Columbia. Those loans were all repaid.

"It has never been the intention of any local association to operate for what might be termed profit, but rather to carry on their entire operations for the benefit of their grower members. Certain reserves have been set up by most local associations. Under the terms of the Co-operative Associations Act, it was necessary for a co-operative to set aside a sum, being not less than 10 per cent of the net profits, as a reserve fund, until that fund reached certain proportions as related to the share capital, in accordance with the conditions specified.

"It is recognized that receiving, packing, handling and shipping should be done at cost. In some cases, where pools are closed before the actual operational costs for the season

are determined, an estimated packing and handling charge will be assessed but this is subject to refund when the actual costs are determined. This refund or rebate is made to the grower, or the liability established in the records, in the fiscal year in which the handling charge is made. It should be mentioned that, in some cases at least, comparatively small surpluses, after refunds have been made, have been carried to a reserve.

"The financing of locals has been carried out by the growers themselves. There have been some variations in the method of operation but, in the main, deductions are made from the growers' returns and shares issued to those growers. There are departures from this procedure, such as the issuing of bonds, or other evidence of participation in the capital funds of the local, to the grower, instead of shares. Where shares are issued, they are on a revolving basis, redeemable in, usually, three to five years. In some cases, interest has been paid on the amount represented by shares; in other instances, not. The amount thus retained from the growers' returns is shown as an earning in the hands of those growers.

"While the prime function of a local association is to receive, pack, ship and account for the produce of its growers, most of those associations are carrying on what might be termed incidental activities, but all distinctly related to the main object, such as the operation of cold storage plants, the supplying of fertilizers and insecticides and, in some instances, other general supplies, and the operation of by-products plants.

"Rather than relate the operations of each of our locals, we think the better method would be to illustrate by citing in greater detail the operating procedure of a representative

local, such as the Penticton Co-operative Growers.

"This local was incorporated on April 25th, 1913, under the then Agricultural Association Act of the Province of British Columbia. The share capital is divided into an unlimited number of shares of \$1.00 each.

"The purpose for which the association was created was to serve its grower members in the best possible manner in receiving, packing and shipping those growers' fruits and produce. Incidental and complementary thereto are the allied services, i.e. the cold-storing of fruit, the furnishing of supplies and materials, etc.

"The business of the association is carried on under the direction of a board of directors, elected by the growers in annual meeting.

"No member who is a producer of agricultural products may vote at a meeting of the association, or be appointed a director, unless he has sold his main crop or produce of the year through the association, or has contracted so to do during the ensuing year, or has received the consent of the directors in writing to dispose of such crop or produce otherwise.

"Voting is on the basis of 'one member, one vote.' Proxies are allowed for the election of directors.

"On the commencement of operations in 1913, a loan was secured from the government of British Columbia, as mentioned elsewhere in this brief. That loan was repaid in accordance with the terms thereof.

"Working capital is provided by a 5¢ per box deduction from growers' crop returns each year. Stock certificates are issued to the growers, representing this amount, and are on a revolving basis over a three-year period.

"Up until 1940, no interest was paid on these capital

deductions, but at that time it was felt that it would more equalize the growers' contributions to the capital fund if interest were paid thereon and that system was inaugurated and interest at the rate of 5 per cent paid. It is considered that, while share certificates have been issued to the growers as evidence of their investment in their organization, the interest paid thereon is a legitimate charge against the yearly operations and is so treated as an expense.

"The total share capital at the end of their last fiscal year, March 31st, 1944, was \$84,114.00.

"This local has a reserve amounting to \$57,729.98. Of this amount, \$10,606.61 was provided in accordance with the conditions specified by the provincial government, referred to earlier in this brief. The greater part of the reserve, \$38,776.16, has been created by way of subsidies received from the dominion government on account of cold storage, and the balance made up of small surpluses from time to time. The total amount added to this reserve since the year 1931, covering a period of thirteen years, is \$943.10.

"The Penticton Co-operative Growers carry out operations related to the main object for which they were organized, such as the hauling of fruit for their growers, distribution of orchard supplies and the operation of a cold storage plant. The object of the association is to handle the products of its growers in the most economical manner and in the best interests of those growers. A packing and handling charge is set at the beginning of the season on an estimated basis, on such commodities as may be closed before the end of their fiscal year. Rebates are made to growers to reduce that packing and handling charge to the actual cost and, on later pool closings, the actual cost is charged when account sales are

issued. The total operations of the association are taken as a whole, it being considered that such operations are all related to the main object -- that is, of handling the growers' crop in the most economical way.

GENERAL

"We have endeavoured to outline in a simple way the general operations of our organization, embracing the local associations and our central, or co-ordinating, unit.

"We feel that we should stress the fact that the organization was in no sense created with any idea of avoiding the payment of income tax, but purely for the purpose of creating for its grower members some degree of economic security, in an effort to enable those growers to operate with some measure of profit. It is true that some surpluses have been created, but we submit that these are all comparatively small. We believe that through co-operative effort, the farmer has a greater opportunity of becoming self-sustaining and, in consequence, the necessity of looking for outside help will be removed. Some measure of success has been attained.

"We feel confident that, through the assistance of our co-operative effort, many growers and producers have been, and more in the future will be, placed in a position that they will be paying income tax and thereby adding to the general income of the dominion.

"It is possible that some of the details of operation might have been carried out differently, such as the issuing of a stock certificate as evidence of the grower's interest in his business, and the payment of interest on same by way of dividend. Other methods could quite easily have been adopted, such as the issuing of bonds or a simple certificate of investment. We feel that, whatever evidence is given to the

grower, interest on the amount of his investment is a legitimate charge against operations. After all, it is simply a matter of equalization, as the grower member provides the interest, in his charges, which is paid to himself and the amount so paid becomes a part of that grower's income and is taxable as such.

"It has been suggested that a non-co-operative is under a handicap in view of the fact that a co-operative has tax-free earnings with which to develop its business. We feel that, in the case of a co-operative, even any undistributed surplus can be considered as the property of the individuals who created that surplus, and sooner or later must be returned to them. In so far as our organization is concerned, however, undistributed surpluses might be considered as a minor phase. We will submit a statement recapitulating the standing of our locals' capital and reserve accounts for the information of the Commission.

"Working capital and capital for the establishment of facilities, as we have previously outlined, is furnished in the main by way of grower investment and that investment is looked upon by the grower the same as if he had had to erect and equip packing house facilities, etc., on his own ranch -- the only difference is that the growers have provided those facilities centrally rather than individually.

"Any amount which may be held back from the grower member by way of capital deductions from the returns of his crop, must be considered as part of those returns and taxable in the hands of the grower as such.

"Finally we believe that the function of a co-operative is to endeavour to produce the best results obtainable for its members, that those results should accrue to its members

in proportion to crop or goods handled, that a co-operative should have no earnings other than for its members and therefore there should be nothing which would be taxable in the hands of the association.

"We trust that the information submitted will prove to be of some value at least to the Commission.

"Respectfully submitted."

THE CHAIRMAN: I think this would be a good time to adjourn.

---The Commission adjourned at 12.30 p.m. until 2.30 p.m.

Ottawa, Tuesday, April 10, 1945.

The Commission resumed at 2.30 p.m.

Examination of K. W. Kinnard, continued:

MR. MILLIKEN: Mr. Chairman and gentlemen: Partly due to the fact counsel for the Commission seems to be suffering from quite a cold I thought I might help out by asking a number of questions to save him from doing so. It is not supposed to shorten his examination in any way but may help out a little.

BY MR. MILLIKEN:

Q. Mr. Kinnard, turning to page 7 of your brief you quote an amendment to your memorandum of association. Would you mind telling us what year that amendment was passed, or what year you obtained it? A. That was on December 12, 1934.

Q. In 1934 you got that amendment? A. Yes.

Q. That is the one dealing with the distribution of surplus in the event of your winding up? A. Yes.

Q. Turning to page 8, Mr. Kinnard, you show 56 dollar shares of capital issued out of 10,000 shares. Would you mind telling us who has those 56 shares? A. One share each is held by the affiliated locals.

Q. How many affiliated locals have you now?
A. Twenty-one.

Q. So there are twenty-one of those shares held by the twenty-one locals? A. Yes. Each director has a qualifying share.

Q. That is fifteen more; I think you told the Commission there were fifteen directors? A. That is correct.

Q. Who holds the rest? A. Some of them are held by locals which have passed out of existence. Unfortunately we have never been able to get the share back as yet.

Some of them have been transferred to myself in trust from locals which are not now operating.

Q. What are you supposed to do with them? Do you vote on them? A. No.

Q. What are you supposed to do with them? A. I hold them to be transferred to any new local. That would be really the only purpose for which they could be used.

Q. When you hold a meeting now of the Associated Growers the only shareholders who have a right to be there and to vote are the fifteen directors and twenty-one local associations? A. That is correct.

Q. But these other shareholders who have shares in their names could do so also? A. If they wished to exercise that right they could. There are very few of them, two or three or four.

Q. Do any of them ever attend meetings? A. No.

Q. On the same page you refer to a tri-party agreement entered into between the growers' local and the marketing association. If I understand it correctly you have attached to your brief two tri-party agreements? A. Yes.

Q. The first one is Series A entitled "Membership Agreement, present members of existing locals." A. Yes.

Q. That was the original agreement entered into between your association, your local associations and their members in 1923? A. That is correct.

Q. I believe that agreement was for a five year period? A. Yes.

Q. And at the end of that five years you changed to the next agreement which is also in the back of your brief and which is headed "Memorandum of Agreement"? A. Yes.

Q. It is also a tri-party agreement? A. Yes.

Q. Between the same three parties but it is a continuous agreement? A. Yes.

THE CHAIRMAN: Is the agreement on the second page of the printed sheet under Series A a part of the membership agreement? It is headed "marketing agreement." Is that a separate agreement?

MR. MILLIKEN: That is one document.

THE CHAIRMAN: The three pages are one document.

MR. MILLIKEN: Yes.

BY MR. MILLIKEN:

Q. Am I right in that? That original agreement is all one document? A. It is all one document. The first page is entitled "membership agreement." The second page is entitled "marketing agreement." There was a membership agreement entered into followed by a marketing agreement. One is contingent on the other.

Q. The second agreement which was entered into at the end of the first five year term is a continuous agreement which contains a clause allowing any party to it to cancel it on certain notice? A. That is correct.

Q. You are operating under that agreement now?
A. Yes.

Q. I should like to ask you one or two more questions about it. Have you anyone or any organization delivering fruit to your association today which has not signed one of these agreements, either the first or the second one? I suppose they have all signed the second one? A. They have all signed the second one.

Q. Have you anyone who is delivering to you who has not signed one of these agreements? A. Not to my knowledge.

Q. Mr. Kinnard, there is a little confusion about

this second agreement; at least, there is to me. You said to the Commission this morning that you had some individuals delivering fruit to you who were not members of locals because they were in scattered areas where there were no locals? A. Yes.

Q. About how many? A. Approximately fifty.

Q. Have they signed one of these agreements? A. They have signed an agreement which is substantially the same except that it is a two-party agreement. There is no provision in the agreement for the party of the second part.

Q. There is no provision in the agreement for a local? A. For a local.

Q. Is that another document or do you have them sign one of these? A. It is another document.

Q. You have not got that with you? A. I have not, but the terms and conditions are the same with the exception that the local, the party of the second party, is omitted.

Q. So in that case these fifty individuals deal directly with you instead of through a local? A. Approximately fifty.

Q. Have these fifty individuals got a share in any organization connected with you? A. No.

Q. That is, they have neither got a share in a local nor have they got a share in your association?

A. They have no share in a local because there is no local with whom they can affiliate. They have no share in our parent organization.

Q. When you come to the distributing section you do not distribute patronage dividends, do you? It is really a final payment? A. It is a final payment. I have heard this term "patronage dividend" used so much but we

do not consider it as a patronage dividend.

Q. You treat it as a final-payment? A. Yes.

Q. Do you pay these fifty individual members their proportionate share of the final payment? A. Yes.

Q. On page ten, Mr. Kinnard, you say that you deducted a commercial reserve of \$89,747.47. Can you tell the Commission in what years you deducted that? A. That was deducted in the years 1923, 1924 and 1925, the crop years 1923, 1924 and 1925.

Q. That was all deducted under the first five year contract? A. Yes.

Q. Nothing has been deducted since for commercial reserve? A. Nothing.

Q. Then on the same page you go on to show disbursements of \$43,713.67 leaving a balance of \$46,034.10. What do you mean by saying disbursements have been made? Do you mean you have invested the money or you have lost it or you have paid it out for losses or what has happened to it? A. The money was paid out. This commercial reserve was set up in accordance with the contract for any and all purposes of the company. Most of that disbursement was made in the liquidation of the Growers Packing Houses Limited. I mentioned Growers Packing Houses Limited in my brief.

Q. Mr. Kinnard, the fact of the matter is you have paid out that money and you no longer have anything to show for it? A. That is correct.

MR. MILLIKEN: If the Commission are interested in knowing the items for which that was paid out Mr. Kinnard has a statement with him showing how the money was paid.

MR. PARKER: He says right here it was taken out apparently for losses in other companies.

MR. MILLIKEN: Yes. I do not think it is of any significance.

THE CHAIRMAN: I think that is enough.

MR. MILLIKEN: May I suggest to you the section of the first term contract which allows the deduction of that commercial reserve is No. 4 (b). I am giving you the reference in case you want to look at it at any time. I do not think it is of importance to consider it at the present time.

BY MR. MILLIKEN:

Q. Turning to page eleven you say you have an undistributed surplus, or a sum in a surplus account, amounting to \$15,455.88? A. Yes.

Q. I think you have a statement showing the amount that was put into that account in every year since commencing your operations? A. I have, yes.

Q. I think it might be of interest to the Commission if you were to file that statement.

THE CHAIRMAN: You can append one to the brief, or is there one already?

MR. MILLIKEN: There is not one already. Would the Commissioners like to have a copy of this?

THE CHAIRMAN: Yes; we can put it right in the brief now.

Statement of Surplus Account of Associated
Growers of British Columbia Limited,
filed as Exhibit No. 2.

BY MR. MILLIKEN:

Q. Turning to page fifteen of your brief you give on that page particulars of one of your local associations, namely Penticton. I understand you have a sheet prepared showing the shares subscribed and paid for, investments and the surpluses of ten of your local associations of

which Penticton is one, and that these ten represent 98 per cent of the total business you get from cooperatives?

A. At least 98 per cent; just over 98 per cent in the last year of operation.

MR. MILLIKEN: We thought it might be of interest if we were to file a copy of that statement with the Commission.

Statement showing shares, investments and
surpluses of ten local associations, filed
as Exhibit No. 3.

BY MR. MILLIKEN:

Q. Taking the case of Penticton, which you will notice is about two-thirds of the way down the sheet, I find in looking at the figures in that statement and looking at page fifteen of the brief that the figures of the share capital do not agree. On that sheet you show the share capital at \$95,136.73 while in the centre of page fifteen of your brief you refer to it as being \$84,114. As I understand it the difference is moneys set aside for capital investment for 1944 which would not be invested in the stock until after the end of the fiscal year?

A. That is correct.

Q. That is, the difference is \$11,022.73? A. Yes.

Q. That makes up all of the difference? A. That makes up all of the difference. In compiling this statement I put in the figure of \$95,136.73 due to the fact that was the total amount deducted at the time. In mentioning it in my brief I quoted the actual share capital as shown on the last balance sheet.

Q. Mr. Kinnard, the same thing is true of Penticton when you go over to the last figure of \$58,871.92 which is the total reserve. You show in your brief that the reserve is \$57,729.98. The difference there again is

the reserve set up for the year ending March 31, 1944, which had not been included in the figures you had? A. Yes.

Q. That you had in the brief; is that correct?

A. That is correct. It is shown in a separate item in the balance sheet. In making up this statement I included it in the total of the reserve so as to have all the figures complete.

Q. In addition to filing these statements, Mr. Kinnard, you have with you your directors' and auditors' report and balance sheet for the years ending March 31, 1938 to 1944, which you are prepared to file with the Commission?

A. Yes.

Q. That is for the associated organization?

A. That is for the Associated Growers of British Columbia.

MR. MILLIKEN: That is all; thank you, Mr. Kinnard.

Directors' and Auditors' report and Balance Sheet, 1938 to 1944, filed as Exhibit No. 4

BY MR. PARKER:

Q. Referring to this sheet you have just filed it shows that the grand total of capital and reserves for these ten companies is \$1,301,462.41? A. Yes.

Q. How much of that is reserve and how much is capital, roughly speaking? A. Total capital is \$699,175.82; total reserve is \$602,285.59.

Q. Those reserves have been accumulated by, shall we say, holding back so much per barrel or package or case of apples or other produce handled by these various companies for their members? A. Not in the main.

Q. How have they been accumulated? A. I will break that down. That total of \$602,285.59 is made up of several items. The first is cold storage subsidies, \$249,730.92.

Q. That is government aid? A. Yes, and it has been placed in every case in the reserve fund by these locals.

Q. By choice or by necessity? A. By choice, I would say.

Q. Yes? A. The next is appreciation in assets, \$32,041.25. That is obvious. The title indicates what that is, assets that have been written up on appraisal.

Q. In what way do your assets appreciate?
A. The greatest part of this arises - in fact, all of it - in two locals. The Kelowna Growers' Exchange accounts for \$3,510.51. They had an appraisal made of their assets, that is, their buildings and equipment and they chose to give effect in their records to the increase in value and wrote these buildings and equipment up in their books and added an amount to reserve.

Q. I suppose it means in previous years they had been depreciated too rapidly? A. Possibly.

Q. Is that so? A. I could not answer that.

Q. Ordinarily buildings and what not keep depreciating instead of appreciating? A. Very definitely, but the appraisal shows the current value less depreciation.

Q. We will go on with the next item. A. The next item is a large item, comparatively speaking, \$28,530.74, arising at Naramata.

Q. Which item are you talking about? A. In the appreciation of assets, \$28,530.74, at the Naramata Co-operative Growers' Exchange. That came about through what you might term the unfortunate circumstances of a fire. In the settlement they received that much more than the buildings and equipment were shown at in their books of record.

Q. Perhaps we need not pursue that. Just give me about how much of that has been accumulated out of what we call holdbacks? A. Speaking of the total reserve now?

Q. Yes. A. \$213,640.28 and \$33,419.80.

Q. Roughly \$250,000? A. A total of \$244,000 or \$245,000.

Q. Close to a quarter of a million dollars. Am I right that has been accumulated by these companies by holding back, as I say, so much per package on the fruit handled by these various companies for the individual growers? A. Yes.

Q. Is that right? A. Yes.

Q. Why was that not paid out to the growers as you went along? Why was it held back? A. In the main the surpluses have been but this is an accumulation over a good many years.

Q. Yes, I realize that. A. In most cases it was built up in small amounts from year to year and, of course, we also have a condition of the Co-operative Associations Act which states, as we know, that 10 per cent must be set aside in reserve.

Q. This is more than 10 per cent? A. Yes.

Q. A good deal of this was money you were free to have paid to the growers if you had been so minded? A. Yes.

Q. Why was it not paid? A. I would say they considered it was safe and good business to build up a certain reserve.

Q. For working capital? A. For contingencies.

BY MR. ARNISON:

Q. Mr. Kinnard, in connection with these reserves that are credited to locals are they in turn credited to the members of those locals in any way? A. No, this

reserve that we are discussing now was not credited to the growers.

BY MR. PARKER:

Q. That is just the question I was about to ask. As to this money which these different locals held back, the amount we have been talking about, so far as the directors were concerned they were free to pay it to these growers if they had seen fit? A. Yes.

Q. And that was not only not paid to the growers but it was not allocated to them or credited to them on the books of the local; is that right? A. That is correct.

Q. Whose money is that lying in the hands of the local association? A. The locals consider that is the growers' money.

Q. Under what principle do they consider that? I assume you are speaking with some knowledge of the way the locals operate? A. Yes.

Q. Why do they say that belongs to the members if it has neither been paid to them, credited to them on the books of the company or allocated to them in any way? I go one step further. Have they been issued anything like a participating certificate or note or any kind of letter stating they are holding the money for these members? A. No.

BY THE CHAIRMAN:

Q. You mean on liquidation they would get it and that is all? A. Yes, unless at any time it was decided to allocate this reserve. I may say, Mr. Chairman, taking the case of the Kelowna Growers' Exchange, it is their intention to make an allocation of this reserve to their growers. It is their full intention.

BY MR. PARKER:

Q. I can well imagine they have that intention now. When were they seized with that intention? When did they

first make up their minds they might pay out that sum, how long before this Commission was appointed? A. I could not answer that question.

BY MR. ELLIOTT:

Q. May I ask one question? Suppose they did allocate that surplus; is it your opinion that in accordance with the regulations under which the Kelowna Growers' Exchange exists that it would be able to revolve that surplus? A. Yes, they could revolve it.

BY MR. PARKER:

Q. Perhaps that is another intention the directors have, to set up a revolving fund and pay that sum out; is that what you have in mind? A. I believe so.

Q. What makes you believe that, just because the Commissioner suggested to you now that it might be done? A. No, sir.

Q. What was it based on? A. It was based on knowledge of their intentions as indicated to me.

Q. Does that apply to all these individuals in this group or certain specific ones? A. I was only speaking then of the Kelowna Growers' Exchange.

Q. That is the only one about which you have any knowledge of what their intentions are as to this fund? A. In so far as any definite allocation.

Q. I mean you are speaking of general principles, I suppose? A. If I may, I feel I should mention here that it has been suggested that possibly their intention to do this was prompted by the fact that the Royal Commission had been appointed. I am quite sure that is not the reason. I am quite sure that the intention to allocate that amount to the growers was not at all to avoid any question of taxation. If they were liable

for taxation then they would be liable no matter whether or not they allocated that now. I would say that it was their intention to put their house in order, let us say. They had come to that realization and were also prompted by the wishes of their growers.

BY MR. ELLIOTT:

Q. In what way would allocating that affect the growers? A. It would give the growers a more definite interest in that amount.

Q. You mean it would alter legally the nature of his claim on that amount? A. Not in a general way, but it would specifically allocate the amount.

BY THE CHAIRMAN:

Q. He would not get any more? A. No.

BY MR. PARKER:

Q. It might make him feel better but perhaps legally he would not get any more; is that what you mean?

BY MR. ELLIOTT:

Q. Would it affect his situation in the case of a loss? A. No.

Q. Even if it were apportioned and the loss charged to that surplus it would be charged proportionately to the amount in the surplus and not in proportion to the member's business with the association during the year in which the loss occurred? A. I would say so.

BY MR. ARNOLDSON:

Q. Mr. Kinnard, if it were possible to revolve this reserve after it has been credited -- and you have stated it would be possible to do so -- it would make a financial difference to the grower eventually? A. It would eventually.

Q. If the amount was credited to him? A. Yes.

BY MR. PARKER:

Q. It would make a difference if, as and when they ever got it? A. If it was put on a revolving basis of course they would get it.

Q. They would get it at the end of three, five or seven years. Have you any knowledge as to whether individual growers in making out their income tax returns show from year to year, or at any time, that they have an interest in these surplus funds? If it is theirs, as you suggest it is, then they get \$10 in a given year and \$10 the next year, and it occurs to me it would likely be shown on their income tax returns as part of their income. Have you any knowledge of that? A. In so far as these surpluses were concerned, no, that has never been shown as income of the grower.

BY THE CHAIRMAN:

Q. Do they evince any interest in this unallocated fund? A. Yes, definitely.

Q. Is it discussed at annual meetings? A. Yes.

Q. Is there a vote taken as to its disposition?

A. I could not answer that definitely.

BY MR. PARKER:

Q. Let us go to a little different aspect of the matter. The parent company to which you have referred had its birth in what year? A. In 1923.

Q. And it has been in continuous operation ever since? A. Yes.

Q. You have spoken about two classes of members that it has, the individual growers, some fifty odd, and these local associations? A. Yes.

Q. You have also spoken about affiliate associations. What is the difference between a member association and

an affiliate association? A. That was only a manner of speech; it is all the same.

Q. It is one and the same thing; they are not two types? A. No.

Q. That is what I want to get. Then, as between the parent association and the affiliate has the parent association been accumulating reserves in its name by way of hold-backs or what not from the affiliate associations through the years? A. Only this \$15,000 that has been referred to.

Q. That is all? A. Yes.

Q. Is there anything outstanding between the parent and the affiliate to show that should be divided in some proportion among these affiliates? A. The amendment to the memorandum of association.

Q. As shown where, on page eight? A. On page seven. the lower half of page seven.

Q. "The income and property of the company shall be applied solely towards the promotion of the objects of the company as set forth in this memorandum of association; and no portion thereof shall be paid or transferred, directly or indirectly, by way of dividend, bonus or otherwise howsoever by way of profit to the shareholders of the company: Provided that nothing herein shall prevent the payment, in good faith, of remuneration to any director, officer, or servant of the company, or to any shareholder of the company, in return for any services actually rendered to the company." Is that the one you are referring to? A. Yes.

Q. What particular part applies to my question?

A. That deals with what shall be done.

Q. You might summarize it for me. What I am getting

at is who has a claim to this \$15,000 as it stands today?

A. Shall I read this?

Q. No, just tell me if you know? A. That would be divided amongst the locals.

Q. In what proportion? A. In proportion to their contribution from the inception of the company to the date of dissolution.

Q. By contribution you mean in what sense? Do you mean the amount of business? A. The amount of business, yes.

Q. That is what you mean. Is there anything other than this amendment, to which you have referred in this document, between the parent company and these affiliates setting that forth? A. No.

Q. So far you have not put through any resolution allocating that \$15,000 to the affiliates? A. No, sir.

Q. In other words, the relationship of the affiliate to the parent association in respect of that \$15,000 is practically the same as the relationship between the individual grower and the reserves of the affiliate? A. I think that would be a fair statement.

BY THE CHAIRMAN:

Q. Roughly how many individual growers would be interested in that fund of \$15,000? How many local growers would be interested? A. Roughly 1,500.

MR. PARKER: Is that quite correct? That is individual growers as represented through affiliates?

THE CHAIRMAN: Yes, individual growers.

THE WITNESS: That is correct, sir.

BY MR. PARKER:

Q. Let me get this clear. The only money which the parent company has is what little share capital it has

which is practically nothing, \$56 or something like that?

A. Yes.

Q. And it has this \$15,000 we have been talking about which it uses for working capital. Through what other sources and how else does it acquire working capital?

A. It has the balance of that commercial reserve which was previously referred to.

Q. That is money held back, as it were, and set aside?

A. Yes.

Q. So all your working capital, apart from \$56, is represented by moneys belonging to your affiliates, or in turn the growers of the affiliates, built up in this fund and which gives you a substantial amount of working capital? A. That is correct.

Q. And a substantial sum has been accumulated through that channel and over the years so far as you know nobody has been showing any portion of that in their income tax returns under the system as it works; is that right?

A. Right.

Q. And so far as you are aware neither corporate bodies, affiliates nor these individuals have been paying any income tax in respect of that amount of money? Perhaps that is saying the same thing, is it? A. Yes, that is correct.

Q. In other words, this parent company, the affiliates and their members together are enjoying, and have been enjoying for some years, a very large amount of money which arises by way of income and it is tax free? Is that a fair way of putting it? A. I would not say a very large amount.

Q. Well, whatever it is. A. Whatever it is.

Q. We need not argue over the amount. It is the

amount we have been talking about, whether large or small. Do I understand you to say that the parent company has been filing income returns regularly? A. Yes, sir.

Q. And you have only paid small amounts in two years? A. Yes.

Q. And the second year after you took the matter up with the officials they rebated both years? A. Yes.

Q. Can you tell the Commission on what principle or on what basis they rebated that income they assessed you for and on which you paid? Under what basis of argument did you succeed in inducing them to pay it back?

A. I think I can say it was due to a change which took place in the legislation.

Q. In 1930? A. 1930; we did not get that back until 1931, I think it was.

Q. Perhaps you can help us on this, Mr. Kinnard. Speaking of that 1930 legislation you are reasonably familiar with it, I take it? That is the famous 4 (p) we are talking about. A. I do not propose --

Q. I am not asking you that as a lawyer. All I want to ask you is that understanding your method of doing business and the type of organization which your concern is do you think they should not pay income tax on these amounts that have been mentioned because of this special legislation, 4 (p), or do you think they should not be paying income tax because of the inherent nature of the organization itself? In other words, they just do not make any income; do you see the difference? A. Yes, I see the difference.

Q. On which ground were you relieved from paying income tax? A. I might say both.

Q. If you do not, in fact, make any income then you

do not need 4 (p)? A. No, that is correct.

Q. But I suppose you regard that as a sort of sheet anchor in case anything should go wrong. That is a fair way of putting it. Speaking for your association would they be satisfied if the legislation was changed so that 4 (p) was repealed and left it to you, and such as are carrying on business in your way, to rely on the inherent nature of the business itself not to be taxable? A. I think so, sir.

Q. You think they would be satisfied with such legislation. Have you discussed that with a good many of your people? A. Yes.

Q. You see the reason I am asking that is it is conceivable that the Commission might want to make a recommendation to the effect that 4 (p) should be amended as being quite superfluous, that there are a lot of true cooperatives who do not make any profit and should not pay income tax, that they do not need this and it is only a cloud there which makes other people try to get under it. Do you think that would meet with the considered approval of the people you represent? A. I think our organization would be quite satisfied to operate as a cooperative.

Q. And take their chances? A. And take their chances.

Q. That is very fair. Speaking now of the parent company it takes apples mainly, I suppose; that is your big item? A. That is the largest item.

Q. So we will deal with that as illustrative of the whole. You take delivery of apples from whom, the individual grower or from the grower through the affiliate association? A. From the grower through the affiliate association with the exception of approximately fifty.

Q. We will leave them out. They are delivered to

you on what terms, the terms set forth in this agreement?

A. In the contract, sir.

Q. Do you buy the apples? A. No, sir.

Q. On what terms do you receive them? A. Shall I explain that very briefly?

Q. Yes. A. The local receives apples from the grower, packs them, loads them.

Q. Perhaps we should stop there. On what terms does the local receive them from the grower? Does the local buy them from the grower? A. No, he receives them on consignment. I do not know whether I should use that word.

Q. We understand what you mean. A. He gives the grower a receipt for these apples showing the quantity.

BY THE CHAIRMAN:

Q. There is no payment at that time? A. No. He packs them, stores them and ships them as required on our order.

BY MR. PARKER:

Q. That is, you direct the shipment by the local? A. Yes, we market them and collect the moneys for them.

Q. Let us pause there. Suppose you direct Kelowna on a certain day to send ten carloads of apples to such and such a place; they would do it? A. Yes.

Q. And the necessary documents are put through and the cash for that shipment will go first to the parent association? You would collect that? A. We would.

Q. From that amount you would pay the parent company's legitimate charges? A. Yes.

Q. Including reserve? A. Including reserve, if any.

Q. Then you would send that on to Kelowna, the one

which furnished that particular ten carloads? A. But not for a specific shipment. I do not know whether we should involve this, but it is not for the specific shipment. In all cases the returns are pooled.

Q. That is just what I am getting at. That particular ten carload lot I have imagined would not be accounted for as a separate unit to Kelowna which put in the ten carloads? A. No.

Q. That would be held to the end of the shipping season with another ten cars and five cars, and so on and so on? A. That is correct.

Q. With the result that at the end of the season you have large sums of money passing through your association on its way to the ten, fifteen, or twenty locals? A. Yes.

Q. So that each local would not necessarily get the net profits from the sale of the apples which that affiliate supplied? A. The specific proceeds?

Q. Or the exact equivalent? A. No, not necessarily.

Q. Because they are pooled with all other locals? A. That is correct.

Q. By the same token the fifty growers, we will say, who supplied the ten carloads to Kelowna in turn do not get the actual price netted from their apples? A. No, sir.

Q. They are pooled? A. All pooled.

Q. That is the way it works? A. Yes.

Q. So, in fact, it is impossible to return to the grower by way of the balance of the price -- A. Pool price.

Q. The price received for his barrel of apples or

package of apples; it is impossible in practice for that man to get the exact amount which his package of apples sold for less the cost, is it not? A. Do I understand you to mean that eventually the pool price may not have any relation to the price at which his individual apples sold? That is correct.

Q. Let us put it another way. We will say Kelowna sends up ten carloads to the market and is lucky and gets \$4 a package.

BY THE CHAIRMAN:

Q. It is the average price? A. It is the average price.

BY MR. PARKER:

Q. And another ten cars comes from another part of the district altogether. They are unlucky and those apples are sold at \$1 a package less. The result is the grower from one district who struck a lucky market has to divide it with his neighbour who struck an unlucky market?

A. Quite correct, sir.

BY MR. ELLIOTT:

Q. Do you distinguish finally between the various grades of fruits and vegetables and between the various kinds?

A. Of course, the kinds, varieties and grades are established when the shipment is made. The grower is credited with so many boxes of Mackintosh reds, fancy.

BY THE CHAIRMAN:

Q. Who does the grading? A. The locals.

BY MR. VAUGHAN:

Q. You deal on the basis of dollars rather than grades, that is, the better the lot the more money?

A. Yes.

Q. It would be a matter of dollars? A. The price

is established for each grade; that is, the average price is established for each grade.

BY MR. ELLIOTT:

Q. How do you determine the exact amount that would be returned with respect to a shipment of the first grade of Mackintosh compared with the second grade of some other sort of apple? Can you give us a general idea of the procedure? A. How the price is determined?

Q. Yes, how the ultimate price that you return to the grower is determined for the one grade and sort of apple and the other grade and sort of apple? A. Take any one variety; we have a million boxes, we will say, of Mackintosh. Those are all sold according to their grades. When the sales are completed we have the picture. The pool shows so many boxes of fancy have realized an average of \$1.50 and so many boxes of C grade have realized an average of \$1.25.

Q. You have the average receipts with respect to each type and grade of apple? A. Yes.

BY MR. PARKER:

Q. Each variety and each grade? A. Yes. Then, of course, the price is established. We have the power of making what we term arbitrary differentials between grades. Anyone would admit that extra fancy or fancy should bring a higher price than the grade below.

BY MR. ELLIOTT:

Q. Does that mean the price that is paid for those apples by the one who buys them, the one to whom you market them? Is that what you mean when you say you have that power? A. No. In the course of business over the years we would sell apples at all prices. I am speaking more of the past and not of the present, not of

the Wartime Prices and Trade Board regulations. Previous to that we would sell at all prices. In some cases we might sell a fancy apple on some markets at a higher price than extra fancy, but that would all go into the pool and in the final analysis we would take the total moneys and in most instances we would make an arbitrary differential between grades. It might be that there would be some taken from the fancy to increase the price of the extra fancy so as to make a proper differential. On account of conditions existing throughout the year the actual sales might show that the fancy on the whole brought as much on the average as the extra fancy but it is not very likely that would be paid to the local and the grower on that basis.

Q. Do you do the same as between different varieties of apples? A. No. Normally we would not take from one variety and put into another. Each variety would have to stand on its own merits.

Q. In determining the amount returned to the growers you must divide the expenses of marketing them in some way between the different varieties of apples? A. In so far as expenses are concerned it must be realized that expenses would be more in some cases than others but we charge a flat selling charge.

Q. The same per unit of each variety? A. The same per box of apples irrespective of variety.

Q. That cost is averaged over all apples? A. Yes, sir.

Q. Is it averaged further than that as between apples and vegetables? A. Yes, there is a schedule of charges. For instance our charge on apples would be 6 cents a box. Our charge on peaches and small fruits would be 4 cents a box.

Q. And that difference is your attempt at a rough approximation in dollars and cents of the handling charge?

A. That is correct.

BY MR. VAUGHAN:

Q. Does that seem an accurate way to do it? Is it accurate to charge on a box basis, charge a higher price box the same as a lower price box? A. We think so, sir. We have always operated on that basis. I presume you mean should it be on a percentage basis?

Q. Would a percentage not be fairer? Of course, it might seem difficult to handle each grade. Usually the higher price varies more than the lower price.

A. It really costs us just as much to sell a box of apples at \$1.50 as it does to sell it at \$3. That is our basis of placing these charges. We feel that is the fairest way, and we have always operated on that basis.

BY MR. PARKER:

Q. Mr. Kinnard, we have heard a great deal before this Commission of the efforts of the cooperatives and their members not to make profits as such but to get better prices for their commodities which they have to sell and to purchase their supplies more cheaply, all of which is what most of us want to do, I suppose. However, I have heard very little about any efforts put forth by the cooperatives in respect of the ultimate consumer like myself, for instance. Is there any attention paid to that in the operations and policies of these cooperatives to see to it that while endeavouring to get as good a price as they can for the producer yet they will not get such a price as would be unfair to the ultimate consumer?

A. I would say definitely yes.

Q. In what way do they approach that subject?

A. It is rather difficult, of course, but previous to the war years, for instance, we were very definitely interested in the price that the consumer had to pay because of the fact that naturally we realized that if fruit can be got to the consumer on a reasonable basis we expect that the consumer is going to use more of it. That is what we must get, distribution.

Q. I realize the theory of it but what I am interested in is the practice as to whether you have endeavoured to transfer these middleman charges to add to what the producer gets or whether you wanted a portion of these middleman charges to be credited to the poor consumer so he can pay a little less. Is that what you are working towards?

A. I can say we have made efforts at times to control it. Perhaps I should not use the word "control" because after all we have no control over the middleman but in so far as we could we have tried to see that the middleman was not taking an undue margin, let us say. At times we went so far as to exert definitely all the influence we could towards that end.

BY THE CHAIRMAN:

Q. Your primary interest, of course, is as to the producer? A. Yes, sir.

Q. And the consumers more or less take care of themselves? A. In the last analysis, yes. Our primary interest and function is to look after the interests of the producer.

BY MR. PARKER:

Q. May I put it this way? In Halifax from which I come I frequently see British Columbia apples for sale. I have never been able to detect, although I have given it some attention, that the price to me as a consumer

that far away from the production point is any less whether it comes by the cooperative method or whether it comes from the so-called independent. I just mention that to illustrate my point. Do you think the ultimate consumer in England or the United States or eastern Canada buys his fruit any cheaper as a result of it having been placed on that market through your type of business as compared with the ordinary independent producer? A. I would not care to be so presumptuous.

BY THE CHAIRMAN:

Q. Is it not a case of just meeting the price?

A. Yes, to a great extent. I think possibly, Mr. Parker, you are thinking chiefly of recent years.

MR. PARKER: I think what I have said applies ever since I have known Halifax, for some thirty years.

THE CHAIRMAN: You observe Mr. Parker raises no question about the respective quality of the apples.

MR. PARKER: In the presence of this company I prefer British Columbia.

THE WITNESS: I think as regards quality, Mr. Chairman, we can take considerable credit as to the quality we have shipped. We feel we are outstanding in that respect. We think we have done a great deal to increase the quality. I do not wish to put in a plug here but we feel that O.K. apples are definitely outstanding throughout the world.

MR. PARKER: With the exception of the Annapolis Valley.

THE WITNESS: No exceptions.

BY MR. PARKER:

Q. I have one other question and then I am through. You mentioned with some fervour a little while ago when

someone suggested patronage dividends that you did not like that term and that they were final payments. What distinction do you make in this business between patronage dividends and final payments? A. I look upon patronage dividends as arising more in a consumer cooperative. Our rebate we do not consider as a patronage dividend.

Q. You have used another word, perhaps not quite thinking. What is a rebate? It is so easy to use a term.

A. Shall I explain that by illustration?

Q. Yes. A. As I mentioned a few moments ago our charge on apples is 6 cents per box. We set that figure at the beginning of the season knowing that it is likely more than ample. We protect ourselves by placing it at a figure which is more than ample.

Q. We will say you get 2 cents. What do you call that? A. We call it a rebate.

Q. A rebate of what? A. Of selling charges.

Q. Your expression was it could be called a final payment. A. That is quite correct, sir.

BY THE CHAIRMAN:

Q. Has your 6 cents always been sufficient? A. Yes, sir.

Q. There has never been a loss on that? A. Never, sir.

BY MR. PARKER:

Q. You may be quite right that patronage dividend is not strictly the right term to use in describing that sort of return or whatever it may be. A. I do not think so. We will say for the sake of illustration that the pool price on a box of apples is \$1.50.

Q. I think I understand your description.

BY THE CHAIRMAN:

Q. If that is a rebate what then do you regard as a patronage dividend in your business? A. We have not any.

Q. You have not any at all? A. No, sir.

MR. PARKER: As I understand it he regards a patronage dividend as a consumer overcharge.

THE CHAIRMAN: I was going to ask about consumer activities.

BY MR. PARKER:

Q. You say that should be applied only to what we might call an overcharge? Is that what you call a patronage dividend? A. From the standpoint of a consumer.

Q. From anybody's standpoint is that not a correct way to describe the payment which the storekeeper gives to the patron who, having traded with him for a period, finds he has overcharged a little more than necessary? That is what you understand by it? A. I would consider that was more properly termed a patronage dividend.

BY MR. ARNISON:

Q. Does your association furnish any supplies to these locals, that is, equipment which is needed by the members of these locals in their business? A. Not equipment but certain other supplies.

THE CHAIRMAN: Boxes.

BY MR. PARKER:

Q. Fertilizers? A. Fertilizers and insecticides chiefly.

BY THE CHAIRMAN:

Q. That is a consumer activity? A. Yes.

BY MR. ARNISON:

Q. Have you been in a position to make any refund on those supplies? A. No. As to our activities in that

respect we consider it more of a service. We do not aim to make a profit.

BY THE CHAIRMAN:

Q. Would you call it a rebate in that case? What do you call it? A. We do not make a rebate, sir. On our supplies we do not make a profit. In our last balance sheet we have an item of \$2,300 odd, if I remember right, arising from supplies. That is the gross. We consider that it costs us at least \$2,300 to handle that business. While we do not specifically allocate costs against that we consider we are handling that on a cost basis.

Q. You do not look for a surplus there at all?

A. Not at all, sir.

BY MR. ARNOLD:

Q. Mr. Kinnard, has your association ever made any special attempts to develop trade relations with consumer co-operatives? I mean to sell fruit direct to consumer co-operatives? A. Not particularly; I might say no.

Q. I have one other question. Reverting back to the reply which you made to Mr. Parker in connection with 4 (p) if I understand you correctly you stated you did not think it was necessary for your cooperative to rely on 4 (p)? A. Yes, sir.

Q. That was brought out in connection with the suggestion which Mr. Parker made in the event it was decided to recommend the repeal of 4 (p)? A. Yes.

Q. If 4 (p) was actually repealed do you think that would be sufficient or would you think it necessary to have some legislative definition as to the conditions which co-operatives must comply with in order not to have an income as a cooperative? A. I do not know whether I am prepared to give an opinion on that.

MR. PARKER: That is really another way of having a statutory exemption?

BY THE CHAIRMAN:

Q. You prefer to have 4 (p) but you do not need it? That is about it? A. I think I can safely say that.

BY MR. ELLIOTT:

Q. There is one question I should like to ask. In the sheet showing the capital and reserve structure of the local associations there is a heading "bonds or investment certificates." Do you know what those are in a general way? Do you know enough of the business of the local associations to know what they are? A. Yes, I think so.

Q. Are those bonds given to members or non-members? A. To members.

Q. Members only? A. Yes.

Q. I notice there is a heading, "subscription." Presumably that means the bonds have been paid for in cash by the members? A. In that instance it happens that shares were converted to bonds. It was originally a share capital structure. That was revised under an arrangement with the growers. So-called bonds were issued to them in place of the shares that were relinquished. That is the reason why I put it in as a subscription because the shares had originally been subscription.

Q. In that case presumably the association decided to make that change? A. Yes, sir.

Q. And the individual member who formerly had had a share got a corresponding amount of bonds, and presumably as far as the individual member goes whether he wished to make that change or not? A. Possibly in the final analysis but, of course, that would have been passed on by all the members in annual meetings.

Q. With the majority ruling, or something like that?

A. Yes.

Q. Then, with regard to the ones under "deduction" presumably those are paid for by deductions from the proceeds of the sale of the members' produce? A. That is correct.

Q. Are they more or less compulsory on the individual members in these associations which decide to issue bonds or can an individual member order the association to deduct so much from his proceeds to buy bonds and another individual say, "Well, I will take so much"? A. No, it would be uniform. It would be a condition of membership to which they would have to adhere as long as they were marketing their fruit.

Q. Where would that condition appear? How would it be known to the member? Would it be in the contract?

MR. MILLIKEN: Might I interrupt? You will find it in section 8 (b) of the second contract.

BY MR. ELLIOTT:

Q. What are investment certificates? A. It is just a term. Instead of giving a bond they give them a certificate showing that this amount has been deducted from their returns, and that they undertake to repay it in three years. That is on the revolving basis.

BY MR. PARKER:

Q. In the case of these bonds and investment certificates are they secured by a mortgage or is it just an open account? A. They are not secured at all. When I mention bonds at all they are not secured either.

BY MR. ELLIOTT:

Q. They are promises by the association to repay to the members a fixed amount at a definite time? A. Yes.

Q. And do they bear interest at a fixed rate?

A. Yes.

Q. Which the member can claim whether the association has a surplus or not? A. Yes, I would say so.

BY THE CHAIRMAN:

Q. Mr. Kinnard, have you any investment income or have any of your affiliates? I mean such as Victory Bonds?

A. I think some of them in a patriotic way have invested a certain amount in Victory Bonds.

Q. How is that income treated? A. I would say if they have any income from that source, and I presume they would have if they held the bonds long enough --

Q. Your organization has not any; am I right?

A. We have at the moment, just in the last year, but we have not had any income yet. I believe the locals treat that as general income of the association, if they had income from Victory Bonds.

Q. Where would the money come from to make those investments? A. In surpluses. I mentioned patriotic reasons but, as a matter of fact, these associations normally have not funds to invest in that type of security. I can safely say they would only do it for patriotic reasons.

Q. It is not a bad investment, is it? A. A very good investment, but normally they have not funds for that purpose. They have plenty of use for their funds in the service of their growers.

BY MR. VAUGHAN:

Q. Mr. Kinnard, following Mr. Elliott's question about the amount of subscription under Kelowna at one time the amounts there were called shares and then they were changed to debentures? A. Yes, sir.

Q. When they were shares was the amount paid on them

called a dividend? A. It would be if there was any amount paid on them.

Q. Then that would not be deductible as an expense in the affairs of this association, would it? A. Of course, that again is a question of opinion. I would say that as to any interest that any of our locals have paid on shares -- call it a dividend if you like -- they have considered that to be a deductible expense.

Q. A deductible expense? A. Yes.

Q. If they change their shares to debentures is it not so that the interest would be a deductible expense?

A. That was not the intention, sir.

BY THE CHAIRMAN:

Q. Might it have that effect? A. It might have that effect.

Q. Was that ever given consideration at all?

A. I can safely say that was not a consideration in making that change. It was an effort to iron out their internal workings more or less. They considered it would be better to have them on that basis rather than term share capital.

Q. It was an advantage, however? A. It would be an advantage if a dividend was construed to be not deductible.

BY MR. VAUGHAN:

Q. You mention in your brief that interest was paid on shares and that was allowed as a deduction? A. In some instances.

Q. What is the difference between paying interest on a share and a dividend on a share? Do you see any difference? A. To be quite frank I cannot see a great deal of difference.

Q. Leaving that can you tell us what the basis is

for the subsidies allowed on cold storage? What are the particulars regarding that? A. The Dominion Government have a practice under certain circumstances where it was deemed advisable of granting a certain proportion of the cost of construction of cold storage.

Q. This is a Dominion Government grant? A. Yes.

Q. It has nothing to do with the Province of British Columbia at all? A. No, that is the Dominion Government.

Q. Do you think it is necessary to have that grant when these surpluses were piling up year after year?

A. In practically no case did any of these locals have sufficient operating capital. These surpluses piling up were in no case at all commensurate with the operating requirements of the local.

Q. Well, some of these subsidies have been granted in recent years? A. Some of them fairly recent.

Q. And these associations have been doing pretty well in recent years? A. The growers have been; of course, the associations are only getting their handling charges.

Q. What the associations get goes back eventually to the growers, anyway? A. Yes.

Q. What I wonder is when these associations were apparently doing fairly well why was it necessary to have a government grant? A. Of course, probably I should answer that by saying that if the government have that practice established I do not think they can very well afford not to take advantage of it.

Q. I can understand that but it seems a little odd when the associations are doing well that grants have been made to them. However, that answers that. A. Probably I should say these grants are made to others than co-operatives.

Q. Oh yes, I can understand that. On page nine of your brief you state that at one time 85 per cent of the business was done by cooperatives but through some dissatisfaction that dropped to 45 or 50 per cent. Can you tell us what that dissatisfaction was? A. That would be quite a long story. There were many dissatisfactions. Human nature is quite a complex thing. When we started with 85 per cent we had no sooner got into operation than somebody was becoming dissatisfied. They probably did not like their director, or some other condition. Possibly the returns, which were not particularly good in some instances in those years, had considerable to do with it and they thought that probably they could do better elsewhere.

Q. That condition has continued, has it, because the volume has not come back? A. The volume has not come back. We have been operating for twenty-two years and for roughly half of that it has been standing pretty much in status quo.

BY MR. ELLIOTT:

Q. Did your association ever attempt to control the amount that the individual growers might deliver to you?

A. Curtail it?

Q. Yes. A. No; we were really obligated to take everything.

Q. Everything they offered in all grades? A. Well, unless it were not marketable, of course.

Q. But the grades that were considered marketable were not changed substantially from year to year?

A. Not substantially; there were variations in grades over the years, of course.

BY MR. VAUGHAN:

Q. On page seventeen of your brief it is said:

"Any amount which may be held back from the grower member by way of capital deductions from the returns of his crop must be considered as part of those returns and taxable in the hands of the grower as such."

When is that taxable in the hands of the grower, when it is held back or at a later date? A. I would say any amount held back should be taxed in the hands of the grower in the year in which it was held back.

Q. Do you make returns to the Income Tax Department showing the amounts held back? A. Yes.

Q. You do not know whether or not the grower makes a return on that? A. The grower must make a return of that because of the fact that the local makes a report direct to the Income Tax Department of all moneys paid to that grower. Naturally if his organization has reported that it has paid certain moneys to him then the grower must account.

Q. Would there be a distinction between moneys paid and moneys deducted? A. No, I understand that would be considered part of the proceeds of the crop and would be shown as such.

BY MR. ARNASON:

Q. Mr. Kinnard, do all your locals revolve their share capital? A. No. This statement will indicate where the share capital is revolved; in most cases yes, but there are two that are not.

Q. Is there an increasing trend towards the adoption of a policy of revolving share capital? A. Yes, sir.

Q. Does that appear to meet the general approval of the members of the locals which follow that policy?

A. I would say so.

Q. Are there any special administrative problems

which arise in connection with the revolving of share capital? Are there any that have come to your notice?

A. I do not think so, nothing serious at all.

BY MR. NADEAU:

Q. What is the meaning of having a holding company?

A. That I refer to in the brief?

Q. That you refer to in your brief on page ten; it is not quite clear to me. A. That goes back to the inception of the Associated Growers. At that time when the endeavour was being made to get all the growers of the district into the cooperative effort there were quite a number of what we call independent companies operating. In order to get the support of the growers who had been shipping previously through these independents it became necessary to eliminate, shall we say, the independents. If the growers came over to the cooperative these independents were going to have to go out of existence. So that it would not be too much of a burden on the independents, and so that they would look upon the effort which was being made with more favour it was arranged that their properties and equipment would be purchased at figures as agreed upon on a valuation basis. This holding company I mention was set up in order to take over these properties and eventually distribute them amongst the cooperative associations which were commencing, and otherwise dispose of them to the best advantage.

Q. Is it still in existence? A. No, that company was wound up as soon as the function for which it was created was carried out.

Q. How many years ago? A. It was about 1927, I think.

BY MR. FILIMORE:

Q. I have a question or two. I do not want to take up much time. I take it, Mr. Kinnard, your entire plan of operation is set out in your contract? A. Yes.

Q. Everything that you have told us can be found there. After you get the fruit from the local you sell it and you have to arrange the scheme of distribution?

A. Yes.

Q. You decide on a payment which depends on the time of delivery, the price, and a good many factors?

A. Yes.

Q. In many cases you have to establish what you call an artificial differential between grades? A. I termed it an arbitrary differential.

Q. Then, your obligation is to pay the local?

A. Yes.

Q. And the local in turn has to arrange a scheme of distribution to put that into effect? A. The local would not arrange a scheme of distribution. All the local would do would be to take our figures and deduct their packing and handling charges and hand the balance to the growers.

Q. The local has the power from time to time and at any time to establish a scheme or schemes of distribution of the moneys received and to vary and alter the same?

A. Yes, they have the power but in practice they do not use it.

Q. And they have the power to create reserves in such amounts and for such purposes as they deem desirable?

A. Yes.

Q. So there is no exact obligation on their part to account to the grower? There is nothing the grower can demand, no exact price? A. No exact price, no.

Q. We will say a man delivers a box of apples on the first of September. There may be a certain price. He might sell to an independent concern at a certain price but what he eventually gets from the cooperative may be more or less than the local price at the time he delivers his apples? A. That is correct.

Q. Do you have any canning factories to process goods in any way? A. No canning factories.

Q. You still have the right to deduct an amount not to exceed one per cent of total proceeds? A. Yes.

Q. If you wish to do so. If you had wanted to enforce that your deductions last year might have amounted to \$48,000 odd? A. Correct.

Q. And the locals have the right of deduction? A. Yes.

Q. So that if you contemplated making purchases or going into business of any kind you have got the machinery with which to raise funds? A. We could, yes.

BY MR. MILLIKEN:

Q. There are two things I want to ask. I am sorry, Mr. Chairman, but it was rather difficult to hear Mr. Parker when he was asking questions. I may be wrong but did you suggest, Mr. Parker, that the cold storage subsidy was income, or was that not involved in any of your questions?

MR. PARKER: No, I was merely asking what your general surplus consisted of and he enumerated that as one item.

MR. MILLIKEN: I take it that the cold storage subsidy was a grant by the Dominion Government to this organization to encourage the building of cold storage plants, and was not in the nature of income.

THE CHAIRMAN: That subsidy goes to any association.

MR. MILLIKEN: That will build a cold storage plant;

they were just one.

MR. VAUGHAN: Before you finish that, what was really in my mind, although I did not say so at the time, was that the money comes from taxpayers and goes to associations which are not taxpayers and which do not need the money.

MR. MILLIKEN: I quite appreciate your point, Mr. Vaughan. I suppose the answer really is if the government is going to give you something you will take it.

MR. VAUGHAN: Oh, yes, I do not blame you for taking it but I think it is somewhat out of order.

MR. PARKER: They should give the government something back in return.

MR. MILLIKEN: You will be surprised how much they have given the government back in return. There was just one more point I was not clear about. When you turned to the surplus in the Associated Growers if I caught your question correctly you asked Mr. Kinnard if the commercial reserve surplus was also included in the moneys which were not shown by the grower as being part of his income. Am I right or wrong in that?

MR. PARKER: Say it again.

MR. MILLIKEN: This is the point you were making, that there was a surplus and that if it was not shown as part of the growers' income in their income tax returns there was no income tax being paid on it. I think you included the commercial reserve in your question. If you did not I have not anything to say.

MR. PARKER: I do not know about that now.

BY MR. MILLIKEN:

Q. I would like to ask Mr. Kinnard about that. The commercial reserve is, of course, one per cent of the sale price of the grower's produce and is really part of

his income? A. It is part of his income, but I must say that when that was deducted back in 1923, 1924 and 1925 it was not shown as part of his income.

Q. How do you know what he showed for his income? The reason I am asking is you do not know, do you?

A. I do not know that he did not show it.

Q. I know in the case of the Saskatchewan Wheat Pool the Income Tax Department asked for a statement of these moneys. There is no doubt it is part of the grower's income. I was wondering how you knew he did not show it?

A. I do not think he did back in 1923, 1924 and 1925. I do not believe that any grower had any taxable income then.

Q. You do not think that any grower in 1923, 1924 and 1925 had a taxable income. That was the next thing I was going to ask you. There is only one other question I would like to be clear about. I must confess that I am in doubt about what Mr. Arnason took from your statement that if 4 (p) was not there you would take your chance. Did you mean by that that if 4 (p) were not in the Act you think you are a cooperative which is exempt or did you mean that you would be prepared to pay income tax? Which did you mean?

THE CHAIRMAN: I have no doubt about that.

THE WITNESS: I meant that we would be a cooperative and that we would not be required to pay income tax.

BY MR. MILLIKEN:

Q. That is, you would be a cooperative --

MR. PARKER: Do not strain the Commission's credulity too far.

THE CHAIRMAN: I am sure you do not have any doubt on that subject.

MR. MILLIKEN: I was a little doubtful about it because it seems to me that this witness and one or two more cooperative witnesses who have been questioned on this point have overlooked the fact that the court held in the Fraser Valley Milk Producers case there was no exemption in Canada for a cooperative. That is why I was asking the question because I was wondering if the witness meant, "if there is no 4 (p) I will pay income tax" or "I think I am smart enough to be a cooperative."

THE CHAIRMAN: You may not have to pay tax but you may also not be exempt. Exemption refers to a specific provision of the law and not paying tax does not necessarily mean you are exempt.

MR. MILLIKEN: I quite agree. I was wondering what the witness meant. In spite of what you say I was in doubt. That is all, thank you.

THE CHAIRMAN: I think that is all, Mr. Kinnard.

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Brief Submitted by the Canadian Chamber of
Commerce

MR. PARKER: Mr. Chairman, I think we will now proceed with the brief of the Canadian Chamber of Commerce. I understand their representatives are present.

THE CHAIRMAN: Mr. Parker, how do you propose to proceed with this brief?

MR. PARKER: I understand Mr. Crabtree wishes to make a brief statement to the Commission concerning it.

THE CHAIRMAN: Is this under oath?

MR. PARKER: I do not know.

MR. SCOTT: Mr. Crabtree is going to introduce the subject matter and then I will present the brief.

MR. CRABTREE: Mr. Chairman and gentlemen of the

Commission: We appreciate this opportunity of placing before you the views of the member boards of trade and chambers of commerce of the Canadian Chamber of Commerce on the subject of the taxation of cooperatives. Perhaps something of the history of the brief which I am tabling will interest you in the methods used in its compilation.

At the last meeting of the national board of directors of the Chamber the executive committee was requested to prepare a brief in relation to the terms of reference of this Commission and present it to you. I may say that implemented the basic fiscal policy of the Canadian Chamber of Commerce adopted at its annual general meetings of 1942 and 1943. For this purpose the executive appointed a special committee which compiled a draft brief. Because of its importance and national interest in the problem, we decided to poll our entire organization membership. This membership comprised at the time the poll was taken some 133 member boards of trade and chambers of commerce in good standing as listed in the appendix to the brief.

In the poll these member organizations were asked if they would concur in the principles relating to equality of taxation as expressed in the recommendations of the brief found on page twenty. The replies to this poll are set out in the brief on page twenty-six. Some eighty-nine member organizations, or two-thirds of the active paid up membership, answered in the affirmative. Accordingly we have pleasure in placing this brief before you with this authority.

As concurrence of the member organizations in these recommendations provides the only mandate which we have to speak on behalf of our members we do not believe we are at liberty to answer questions apart from giving explanations on the body of the brief itself as none but

the three final recommendations were presented to the members. However, should the Commission desire further enlightenment in regard to the Chamber's recommendations we shall be only too glad to obtain for you the views of our executive committee or to relay such questions once again to our organization membership.

I should like to follow these remarks by reading the preface to our brief.

"It is to be expected that when peace comes the Dominion Government will be compelled to raise in taxes an amount far in excess of pre-war requirements. It is estimated that this excess will very probably be more than one thousand million dollars annually. In order that so great a burden may be carried by the citizens of this country without crippling effects on business and the creation of unemployment, tax inequalities as between citizens should now be scrutinized more closely than ever before.

"With the coming of peace we will be faced with an entirely new set of conditions. The important objective at that time will be that of finding employment, not only for those presently employed in the production of war and civilian goods; but also the reemployment of our service men and women. This obligation places a heavy responsibility not only on large enterprises but also on the vast number of small undertakings employing one or two workers. Taxes that greatly influence business operations and employment should be eased to the greatest possible extent in order that high levels of production and employment may be encouraged in the important post-war reconstruction period. To this end the present tax inequalities and anomalies should be removed.

"We should like to make clear our belief in the

democratic right of all Canadian citizens to trade with, or through, any legal form of organization according to their choice. Finally, we believe all trading and business organizations should receive equitable treatment under Canadian tax laws, whether their legal form be one of private, partnership, cooperative, mutual or corporate ownership.

"Convinced that it will not be possible to find employment for all of the Canadians who need work, until the structure of our tax system has been revised with a view to making maximum employment possible, we present this brief on behalf of The Canadian Chamber of Commerce."

I may say Mr. W. B. Scott, K.C., is present as our counsel and if so desired by you gentlemen will read the brief. Also present is Mr. S. H. Sutherland, who is Manager of the Research Department of the Canadian Chamber of Commerce. He will be glad to answer any questions or interpret any expressions in the brief which may not be entirely clear to you. I might implement my remarks by saying that the entire brief was sent to the membership of the Chamber of Commerce. It is on that brief that they expressed their views.

THE CHAIRMAN: Mr. Scott, will you read the brief? I fancy that is about all we have time for today.

MR. SCOTT: Is it your wish that I proceed?

THE CHAIRMAN: Yes, but we will stop at half past four.

MR. SCOTT:

"To the Chairman and Members,

The Royal Commission on Co-operatives

1. Introduction

"Inequities inevitably exist in a tax system such as

that of Canada which has developed piecemeal over the years. Although wrong in principle, in pre-war days the anomalies and inequities in the tax burden did not bear so onerously on the economic system nor work unbearable injustice upon the taxpayers of the nation. Both individual and corporate income taxes were a mere fraction of what they are now. But today with income and excess profits taxes taking away from 40 per cent to nearly 80 per cent of net corporate earnings and so large a share of individual incomes, the need for an equitable distribution of the tax burden has become of prime concern.

"The problem of taxation is not, however, something peculiar to the present age. Throughout recorded history man has been actively concerned over the share of his income taken by the tax collector.

Purpose of taxation

"The economic and social system under which the Anglo-Saxon people developed the highest standards of living and of government, was created step by step as men fought for responsible government, the removal of special privilege, equality of taxation and the right to work and to live in freedom under the law according to individual choice. The most treasured documents of British history, Magna Carta and the Bill of Rights, were mileposts in the road to achievement of these democratic rights of the individual.

"Under this democratic system, there developed certain basic concepts of the relative position of the Sovereign and the citizen in the national economy and the rights and responsibilities of each. These concepts include certain principles of equality of taxation which Adam Smith in his 'Wealth of Nations' has enunciated as

follows:

'The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. The expense of government to the individuals of a great nation, is like the expense of management to the joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate. In the observation or neglect of this maxim consists, what is called the equality or inequality of taxation.'

"The power of taxation is rightly regarded as an instrument for raising revenues as economically, expeditiously and equitably as possible with due regard for ability to pay. Inequitable taxation can as effectively destroy any given form of enterprise as can outright confiscation.

"Review of Tax Structure"

"We are conscious of the pervading influence upon the national economy of taxation policies and of the inconsistencies in the present tax structure as a whole. This includes the application of the present tax structure to the taxation of cooperatives and mutuals as well as to all other taxpayers. There is urgent need for consideration of the respective fields of taxation of the dominion and provinces and a revision of our present tax system to secure adequate revenues to meet the increased expenditures of the government for heavy war debts and added social services already or about to be undertaken. At the same time there is urgent need to increase the

investment of risk capital and encourage business to expand and increase production. It is only through the increased production of goods and services that maximum employment can be maintained, the standard of living raised and government budgets of the future met.

II. GROWTH OF CO-OPERATIVES

"Beginnings in England

"Cooperatives and 'mutuals' in Canada are part of a world-wide development which originated in England in the nineteenth century. Therefore, at the risk of appearing tedious by repeating facts already familiar to you, we outline briefly a history of the cooperative movement as relevant background for the consideration of the present situation.

"Last year the democratic world celebrated the hundredth anniversary of the first successful cooperative venture, the 'Rochdale Pioneers'. In 1844, in Rochdale, England, some twenty-eight weavers opened the first successful consumers' cooperative store and from that modest beginning has developed the world-wide movement of today. They began a venture in trading whereby consumers joined together in an association or society to provide goods and services for themselves at net costs lower than could be obtained in the open market.

"Under the Rochdale plan goods were sold at market prices and income from operations, after deductions for expenses and reserves, was divided among the members in proportion to the volume of business each had done with the society. Each member thus found it in his interest to purchase from the society in order to obtain the patronage dividend or 'divi' on his purchases. The members considered themselves mutual traders and the making

of profit was not contemplated by the society apart from the savings to the membership.

"The cooperative movement from its modest beginning has become, after a century, a large and prosperous trading organization in Britain. As the societies grew they expanded their activities to include the production of the goods dealt in, and the processing and marketing of primary products. Today the British Cooperatives have a membership of about nine million and sales in billion dollar figures.

"Principles of Cooperation

"Although the forms of organization and even the objectives of cooperative associations and societies vary widely according to the location and nature of the trade or business, certain practices developed over the years have assumed the effect of rules with some degree of uniformity, namely: cooperatives are voluntary organizations; each member has one vote in the affairs of the society irrespective of his investment in or the volume of his business with the society; net income of a society in whole or in part is distributed among members in direct proportion to the amount of business they have done with the society; goods and services are generally sold at prevailing market prices; and active educational programs on cooperation are maintained.

"As the cooperatives increase in size, the personal contact between management and members inevitably diminishes. The reduction of personal contact between members and administration places increased responsibility and control of the business in the management and members become; in effect, simply participating customers

or patrons. The larger cooperative organizations necessarily become more and more similar in form of management and methods to ordinary trading firms or joint stock companies carrying on trade or business operations under similar conditions.

Observations on United States Inquiry

"In 1937, President Roosevelt appointed a Commission of Inquiry on cooperative enterprise in Europe, to study the development and treatment of cooperatives abroad. Some extracts from the 1937 report of the Commission present an interesting comment on certain aspects of the cooperatives in Europe."

THE CHAIRMAN: I think you can pass that. We have had that before.

MR. SCOTT: Then, page six

"III. TAX POSITION OF COOPERATIVES IN BRITAIN

"Until 1933 the cooperative and mutual societies in Britain were free from taxation, except on lands and buildings owned by them. That is to say, their trading profits or surpluses were not taxed. The early cooperatives were organized and incorporated under the Industrial and Provident Societies Act, and the tax exemption was presumably granted to them as charitable or philanthropic non-profit organizations."

I think historically that goes back to the old original friendly societies in the time of George III.

"The exemptions continued while they developed into important business enterprises transacting an increasing percentage of the commercial operations of the country.

"Early Steps towards Removal of Exemptions

"In 1912, a Royal Commission on Income Tax was

appointed to inquire into the British income tax in all its aspects. It is interesting to note that one of the reasons for the appointment of the Commission in 1919, was stated as follows:

Presumably the Commission has had that submitted in previous briefs so I will not read it.

"The representatives of wholesale and retail merchants before the Commission urged that the cooperative societies were independent legal entities, that these separate entities were the exclusive owners of their respective businesses and assets and that the sale and purchase of goods was an independent transaction by the societies with the members. They further pointed out that the cooperatives transacted a large volume of business which being tax exempt represented a serious loss to the national revenue and an injustice to other income tax payers by subjecting the latter to unfair burdens and unfair competition.

"The Commissioners in a majority report stated:

'We recommend, in effect, that a society should be treated exactly as a limited liability company trading in similar circumstances and under similar conditions and if our proposals are acted upon it will be necessary to amend the existing law in so far as it confers special exemption on cooperative societies.'

"No legislative action was taken on this recommendation at that time but we should like to draw attention to the fact that the Finance Act, 1920, section 52, subsection 2, (corporation profits), after providing that the profits to which the tax is applicable are the profits of a British company carrying on any trade or business or any undertaking of a similar character, says (sec. 52, s.s. 2) profits shall be the profits and gains determined

on the same principles as those on which the profits and gains of a trade would be determined for the purposes of schedule 'D' with a proviso that for the purpose of this part of this Act

'(h) Profits shall include in the case of mutual trading concerns the surplus arising from transactions with members'.

"Removal of Exemptions in 1933"

"In the year 1932 the government, in view of the increasing volume of the cooperatives' business operations and of the successive increases in tax rates, appointed a committee of the House of Commons to inquire into the position of the cooperatives in relation to the income tax and to make recommendations for the alterations of the law.

"After hearings at which, among others, officers of the Inland Revenue appeared, the committee unanimously agreed with the majority report of the Royal Commission of 1919 and in their report they said in part:"

You have had that.

THE CHAIRMAN: You can pass that.

MR. SCOTT: Except I do draw attention to page eight, the reference to the text of paragraph 556 from the 1920 report which is expressly approved in paragraph 21 of the 1932 report. In many of the previous briefs I have seen I do not think that paragraph 556 has been quoted textually. Do you want me to read it?

THE CHAIRMAN: You can read it if you please but we have all read that report.

"The Finance Act of 1933, Part II--Income Tax, section 31, gave effect to these recommendations."

We set out on pages eight and nine the text of the statutory legislation passed in England following the parliamentary committee. That brings me to page eleven, part

IV. CO-OPERATIVES IN CANADA

Early History

"It is well known that in Canada the first consumer cooperative was started in Stellarton, Nova Scotia, in 1861, by some miners who had formerly been members of an English society. Both producer and consumer types of cooperatives in Canada had a long but relatively unimportant development until the nineteen twenties. In that decade the farmers' producer cooperatives in western Canada expanded and by 1930 had secured an important place in the handling of grain, with a membership of 140,000 and grain receipts of 132,000,000 bushels. The growth of all cooperatives showed a marked acceleration in the twenties and thirties and an even more rapid expansion during the war years for which figures are available.

"The figures for all cooperative business organizations, as reported in the Canada Year Book show the accelerated growth between 1932 and 1943. The number of associations increased from 795 to 1,675 and total business from \$145,304,000 to \$352,786,000. (Appendix A, page 21). No complete data are available for subsequent years but that the trend is continuing is apparent from recent annual reports of cooperatives.

"Growth Under Tax Exemptions

"The term 'cooperative' has come to be used in a very loose sense for income tax purposes. In fact it would be possible for some commercial enterprises to adopt the

cooperative form or title for the purpose of obtaining the tax exemptions contained in the Income War Tax Act. Co-operatives may collect a nominal membership fee of as little as one dollar from their 'customers' or 'members' and thereby qualify for tax exemption although carrying on ordinary commercial operations. Others like the western wheat pools which prior to 1930 presumed to be purely farmers' grain marketing agencies, handling their grain as agents or factors with an obligation to pay the producer the market price of the grain, less handling charges and contributions to reserves which remained the farmers' property, have since become large commercial businesses. They buy from the farmer and sell on the market having the same control over their assets and following the same practices as their private or commercial business competitors.

In the period between 1910 and 1930 many influences were contributing to the development of cooperatives but one conclusion seems reasonably clear. After a slow rate of growth over many decades the rapid expansion of cooperatives and mutuals in Canada has been substantially enhanced by their exemption from liability for income taxation. The record supports that conclusion. While this position of special privilege is maintained the expansion of cooperative and mutual associations will continue, leading finally to the removal of a considerable part of the commerce of the country from the taxable to the tax-exempt form of business organization. This will result in a loss of revenue to the government and the shouldering of additional burdens by the taxpaying citizens.

"Cooperatives and mutuals are using their tax-exempt surpluses to attract business, to expand their operations,

to buy out tax-paying competitors and to enter an ever-widening field of commercial and industrial activities.

"Tax-paying enterprise cannot indefinitely compete with exempted enterprise and this discrimination must inevitably lead to concentration of business operations in those privileged forms of organization. This is not in the consumers' or in the national interest."

THE CHAIRMAN: Mr. Scott, I think I might suggest that possibly the rest of the brief could be read before tomorrow morning. Then you could put Mr. Sutherland in the box tomorrow to establish such facts as you consider necessary. It is not easy for you to read and it is not easy for us to listen at 4.30 in the afternoon. How does that strike you, Mr. Parker?

MR. PARKER: That is quite all right. I should like to have a clear understanding as to what witness is going to be put in the box in order to verify certain statements put forth in the brief.

THE CHAIRMAN: Mr. Sutherland, I understand.

MR. SCOTT: Mr. Sutherland is here. We will put him in now if you like.

THE CHAIRMAN: No, tomorrow morning. I think we will adjourn at this point. I do not think you will need to continue reading the brief. I see that everybody in court has a copy so that we do not need to go through the laborious process of reading it. Mr. Sutherland will be here tomorrow morning at 10 o'clock.

MR. PARKER: There was one point in the statement made by Mr. Crabtree in reference to the way in which this brief was circulated across the country which I wanted him to amplify. Will he be here?

MR. SCOTT: You had better do that now.

MR. CRABTREE: Mr. Sutherland is fully familiar with this.

MR. PARKER: If he can explain it that is quite all right. I might point out what I have in mind. I have information which leads me to believe that although a number of boards of trade as set forth in this table have approved of the brief I understand that many acrimonious debates took place in various boards of trade as to the contents of the brief and that in some cases it was adopted by a very narrow margin which is a different thing from unanimous consent.

MR. SCOTT: I do not think we know what took place in the local boards.

MR. PARKER: I want to know about the sponsors of the brief.

MR. SCOTT: You mean, for instance, in Halifax?

MR. PARKER: No, I do not mean for instance in Halifax at all. I merely point that out so the gentleman will be prepared to answer it and not be caught by surprise.

IV. PRESENT TAX POSITION OF COOPERATIVES IN CANADA

Development of Present Status

"In the original Income War Tax Act of 1917, no special exemption was granted to cooperatives. Exemption from income tax, however, was granted to 'mutual corporations not having capital represented by shares, no part of the income of which inures to any member....'

"The cooperatives, through their union, made representations to the Income Tax Commissioner that they were in effect mutual non-profit organizations and that 'profits' from business operations with their members were not comparable to profits of joint stock or private companies

trading with the public. In 1919 by a ruling of the Commissioner of Income Tax these representations were recognized to the extent that patronage dividends were made deductible in arriving at taxable income, but that all other net profits were taxable. After further representations and a number of court decisions, the Income War Tax Act was amended in 1930 by adding subsection (p) to section 4 of the Act. Subsection (q) also was added to section 4, extending the exemption to incomes of banking institutions organized under cooperative provincial legislation.

"It is worth remarking that when this s.s. (p) of section 4 of the Income War Tax Act was introduced in parliament, there was only brief discussion on the subject, as recorded in Hansard, pages 2507 and 2645 for May, 1930. Apparently, there was little anticipation of the significant effect this exemption would have upon the national revenues as cooperatives developed in size and numbers and expanded into new fields of operation.

"These amendments to the Income War Tax Act, however, have not established the position of all cooperatives and their subsidiaries in respect of liability for income tax. Administrative interpretations of the meaning of the section 4 have been in dispute, with resultant doubt as to the position of some cooperatives.

"There are many types of cooperatives or mutuals of varying size and opportunity for arbitrary decisions by the Minister as to whether or not one or other or all qualify for the exemptions under the Act.

"Present Status

"Section 4 of the Income War Tax Act exempts from liability for taxation the incomes of certain persons and

organizations, among others those specified in subsections (s), (t), (p) and (q). These four subsections, we believe, cover the types of cooperative and mutual organizations which are the subject of the present enquiry.

's.s. (g) '.....of mutual corporations not having a capital represented by shares, no part of the income of which inures to the profit of any member thereof, and.....'

ss. (i) 'The income of such insurance, mortgage and loan associations operated entirely for the benefit of farmers as are approved by the Minister:'

ss. (p) 'The income of farmers', dairymen's, livestock-men's, fruit growers' poultrymen's, fishermen's and other like cooperative companies and associations, whether with or without share capital, organized and operated on a cooperative basis, which organizations

(a) market the products of the members or shareholders of such cooperative organizations under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality, less necessary expenses and reserves,

(b) purchase supplies and equipment for the use of such members under an obligation to turn such supplies and equipment over to them at cost, plus necessary expenses and reserves.

'Such companies and associations may market the produce of, or purchase supplies and equipment for non-members of the company or association provided the value thereof does not exceed twenty per centum of the value of produce,

supplies or equipment marketed or purchased for the members or shareholders.

'This exemption shall extend to companies and associations, owned or controlled by such co-operative companies and associations and organized for the purpose of financing their operations.'

s.s.(q) 'The income of any banking institution organized under cooperative provincial legislation which derives its revenues from loans made primarily to members residing within the territorial limits within the province to which the institution is restricted for the carrying on of its business.'

"The wording of the part of subsection (g) quoted above refers broadly to mutual corporations without specifying any particular type of business in which they may engage.

"Subsections (q) and (i) referred to include only broad definitions of the organizations which are eligible for tax exemption under them. No clear line of demarcation is drawn between what constitutes a cooperative and a mutual company. In the absence of such clear definition, it is our intention that our submission shall apply equally to all organizations claiming under subsections (g), (i), (p) and (q) quoted above. We do not intend this submission to apply to life insurance companies.

"Organization and Business Methods of Cooperatives

"Whether organized with or without capital represented by shares, most cooperative organizations carry on their trading operations with their members and others in a manner similar to other businesses in similar fields of enterprise. They buy goods from their members and sell them

in the open market; or they buy goods in the open market and sell them to their members. These trading operations of buying and selling are carried on through a legally incorporated entity separate from its members. Its members enjoy the same immunity from personal liability for the acts of the cooperative as do the shareholders of other legally incorporated companies. In all these and other respects these trading operations are carried on in essentially the same manner as the trading operations of any other company in a similar line of business. Few operate as mere agents for their members.

"Cooperatives are private enterprises carrying on their trade or business for the profit of their subscribers and members. Profit or gain can be in other forms than cash dividends and it is a matter of business policy to be decided by those who own or control the operations of any business just what form of profit is sought. There is no legal impediment or compulsion upon any company, cooperative or otherwise, to operate with or without making a cash profit which would represent taxable income under the Income War Tax Act. The profit or gain sought by members of cooperatives is to secure for themselves goods or services at a lower net cost than they can secure similar goods and services elsewhere in the open market.

"In order to realize this profit, cooperatives pay, out of the income resulting from their trade or business, dividends to their members according to the magnitude of their respective transactions. Such 'patronage dividends' when paid to members or other persons on account of and in proportion to the magnitude of their transactions with the cooperative are claimed to be adjustments of price with its customers and to constitute a discount, rebate or bonus, in respect of the price of goods sold or bought,

as the case may be.

"Many cooperatives do not distribute all their income to their subscribers and members in this manner. Part of the surplus is retained by the cooperative as reserves to meet future contingencies and for the expansion of the business through reinvestment in added facilities or for acquiring the assets of competitors. The individual subscriber or member of cooperatives cannot specifically identify any part of this surplus in relation to his particular transactions with the cooperative and he has no more claim upon such surplus than has the shareholder of an incorporated company upon the undistributed surpluses of his company.

"Under the terms of the Income War Tax Act and the Excess Profits Tax Act (1940) both the income distributed to members as 'patronage dividends' and the undistributed surpluses retained by cooperative and mutual companies and associations are exempt from liability for income tax. Indirectly, this is a subsidy to cooperatives at the expense of all other taxpayers whose share of the tax burden is thereby proportionately increased.

"Comparative Position and Effects.

"Exemption from income tax was accorded to cooperatives and mutual companies in a period when the tax rates were lower than they are at present and probably will be for the foreseeable future. These tax exemptions, although inequitable in principle, did not then bear so onerously on the national revenue, nor work such relative injustice upon competitors and other taxpayers. Now, with income and excess profits taxes taking away 40 per cent to nearly 80 per cent of corporate net earnings, the inequity is

severe enough to induce a change in the business structure of this country, unless remedies are applied in time. These high tax rates throw into bold relief the inequities and anomalies which have developed in the tax structure over the years.

"It is anticipated that taxes will continue at relatively high levels after the war in order to meet heavy war debts and the increased expenditures for additional social services already assumed or about to be assumed by the government. It has been estimated that federal budgets after the war may be three and perhaps four times those of pre-war years. In the circumstances every effort should be directed toward broadening the tax base and distributing the tax burden justly and equitably among all sectors of the economy.

"The post-war objective of government and business will be the maintenance of maximum employment and the promotion of a rising standard of living for all our people. Taxation policies which now influence practically every financial decision made by business management, will need to be framed so as not to discourage saving and the free flow of risk capital to the end that trade and business will expand and increase production. It is essential that there be a steady and abundant investment of private funds in new capital equipment for the maintenance of long-term stable employment at high levels.

"The tax exemption accorded to cooperatives and mutuals imposes a disproportionate burden on their taxable competitors. Tax-paying enterprise cannot indefinitely compete with exempted forms of enterprise when taxation is at current levels or at the levels probable in the postwar period. Continuation of the situation

brought about by these exemptions will tend to encourage organizations classified as taxable to convert, where possible, into a form currently classed as exempt from income taxation thus increasing the burden on all other taxpayers.

"Although the Income War Tax Act regards an incorporated company as a person for the purposes of taxation, the real burden of taxation imposed upon the company cannot be separated from the individuals who are associated in one way or another in its operations as customers, employees, and shareholders who, between them, contribute and receive (or hope to receive) a part of the income of the company from which the taxes are taken. This fact is important in considering the question of 'taxation as nearly as possible in proportion to their respective abilities' as it applies to the taxation of companies. When any particular form of trading or business organization (such as cooperative and mutual companies) is exempted from taxation which is imposed upon other organizations then it is not the company which is relieved of the tax but the subscribers, members, employees and customers of one kind of company or organization who are exempted from taxes which are imposed upon the shareholders, employees and customers of other enterprises. This form of tax exemption ignores entirely the respective abilities of the individuals concerned to pay taxes and therefore violates the first principle of equitable taxation.

"Application of Income Tax and Excess Profits Tax to Cooperatives and all persons other than Cooperatives.

"The problem of determining what, in the public interest, would constitute a just, fair and equitable basis for

the application of the Income War Tax Act and the Excess Profits Tax Act (1940) to cooperatives and persons other than cooperatives, in our opinion, is very largely a matter of determining how to deal with the payments made by cooperatives commonly called 'patronage dividends' in computing the profits to be taxed under these Acts.

"This has been dealt with in the United Kingdom by allowing 'patronage dividends' paid out to be deducted from profits as a trade expense thereby exempting such payments from taxation in the hands of the payor. But in Canada to deal only with 'patronage dividends' in this manner would result in an application of the Income War Tax and Excess Profits Tax Acts which, in our opinion, would be far from just, fair and equitable to persons other than cooperatives and mutuals. This inequity arises largely from the fact that under these Acts as they now apply to persons other than cooperatives and mutuals, all distributions out of income as dividends are taxed twice; once in the hands of the company and again in the hands of the shareholder.

"We wish particularly to draw to your attention that the double taxation of income distributed as dividends does not exist in the United Kingdom where 'patronage dividends' paid out are deductible as an expense under the Finance Act.

"Under the Act the absence of double taxation on income distributed as dividends and the exemption of 'patronage dividends' from taxable income by permitting their deduction as a trade expense is regarded as being equivalent treatment on a practical administrative basis and therefore to be an application of income taxation which is just, fair and equitable to all forms of business. In our view the exemption from taxation of 'patronage div-

dividends' cannot properly be considered independently of the basis on which other income distributed as dividends is to be taxed.

VI. CONCLUSIONS

"Summarizing the foregoing, we submit that all trading and business organizations, operating in similar circumstances and under similar conditions, whether cooperative, mutual or otherwise, should be equally subject to the Income War Tax and Excess Profits Tax Act on profits or surpluses resulting from their operations, for the following reasons:

- (1) 'The profit or surplus resulting from the trading and business operations carried on by cooperative and mutual companies and associations is, in fact, a true trading profit.
- (2) 'Exemption of cooperative and mutual companies and associations from income taxation is inequitable because it increases the share of the tax burden on other taxpayers in similar trades or businesses without regard to their respective abilities to pay.
- (3) 'Tax-paying enterprise cannot compete with tax-exempt enterprise with taxation at present levels or at the levels which will prevail in the post-war period. Tax exemption of cooperatives and mutuals discourages business expansion and investment in tax-paying enterprise and thereby lessens opportunities for employment.
- (4) 'Tax exemption for particular forms of enterprise will eventually lead to greater concentration of trading and business operations in those privileged forms of organization. This is not in the national interest. On the contrary such a narrowing of the

tax base increases proportionately the burden on all other taxpayers.

- (5) 'Compared with the tax exemption granted cooperatives, the profits or surpluses of other companies, to the extent they are paid out as dividends to shareholders, are taxed twice, once in the hands of the company and again in the hands of the shareholder. This is inequitable.

VII. RECOMMENDATIONS

"The Canadian Chamber of Commerce believes that in the public interest a just, fair and equitable basis for the application of the Income War Tax and the Excess Profits Tax Acts to all persons carrying on business whether organized as corporations, cooperative or mutual companies and associations should be upon the following principles and the Chamber recommends:

- (a) 'That all persons carrying on the same or similar businesses in Canada be subject to taxation on the same basis under these Acts and be subject to the same administrative rules and regulations in computing what shall constitute taxable profit.
- (b) 'That the double taxation of income paid out as dividends which the present Income War Tax Act imposes on all persons subject to taxation thereunder be eliminated.
- (c) 'That until such double taxation of all income paid out as dividends is eliminated, the 'patronage dividends' of cooperative or mutual companies and associations be dealt with in the same manner as all other dividends which are not now exempt from taxation as income of the payor.

IX. SUPPLEMENTARY STATEMENT

"By the Executive Committee of the Canadian Chamber of Commerce.

"This memorandum is appended by the executive committee of the Canadian Chamber of Commerce as a supplement to the brief considered and approved by a majority of the member boards of trade and chambers of commerce. It is intended as a supplementary statement on the practical application of the Income War Tax and Excess Profits Tax Acts to co-operatives and all persons other than cooperatives.

"Having come to the conclusion that all cooperatives and persons other than cooperatives carrying on similar businesses should in the public interest be equally subject to taxation on profits or surplus resulting from their operations, it remains to be considered whether the present Income War Tax and Excess Profits Tax Acts can be applied on a just, fair and equitable basis to all such cooperatives and other persons or what amendments to the said Acts may be necessary.

"Taxable profits under these Acts are based upon an annual accounting. The taxable profits of any Company are an accumulation of trading profits from numerous transactions. These must be transactions completed within the taxation year, that is to say, there must be a purchase and sale of goods or services and the purchase and sales prices must have been established on a determinable basis. In the case of dealings by cooperatives with their members, the basis of their agreement is that the price, as between the cooperative and its members, is not established until the cost of the transaction can be ascertained. This is done by agreeing initially upon a provisional or billing price (which may be more or less than

5- 9 the final price of the goods) and later adjusting it through a discount, rebate, dividend or bonus. Therefore, until this

discount, rebate, dividend or bonus is determined in respect of any transaction it could be contended that the transaction is not completed and consequently that no taxable profit thereon could be determined. This, in general terms, appears to accord with the view of the Royal Commission in the U.K. referred to on page eight of this brief, wherein they express the opinion that the 'sale price of the goods is not the nominal price which the society received on making a sale to the purchaser but the net sale price remaining in the hands of the society after it has returned to the purchaser a discount in the form of a dividend on purchases.'

"There does not seem anything inconsistent in this position with the position of companies other than co-operatives in relation to their transactions. Taxable profits are not determined on their transactions until both the costs and the sale prices of their transactions are known. However, such companies usually know the price they will receive or pay for goods before they undertake to make or to accept delivery and this is usually covered by some form of agreement between the company and its clients. But this is not so in all cases. Frequently contracts or agreements are entered into on the basis that a price will be determined when the cost of the supplies purchased or sold can be ascertained. This is an entirely proper method of transacting business and any interference with such arrangements through income tax regulations would be regarded by most business men as an unwarranted interference with their freedom. In fact, there is not now any such interference by the Department of National Revenue nor is it provided for in the Income

and Excess Profits Tax Acts.

"Even though the same administrative rules and regulations in computing what shall constitute taxable profit are applied to cooperatives and to persons other than cooperatives, on the basis suggested above, it is evident that if the price of goods purchased or sold by a cooperative is not determined until the cost of the transaction is known, a cooperative can always, if it desires to do so, carry on its business with its members and others in such a manner as to have no profit to tax. Its taxable profits would only be profits which it did not choose to return to its members and customers as an adjustment of price in respect of its transactions with them.

"Therefore, cooperatives, simply by the nature of their relationship with their members can escape all income taxation on their operations in contrast with a company carrying on business and liable to taxation on its trading profits. This advantage, which benefits only a particular form of organization under present Canadian Income Tax laws, places all other forms of companies in a position of inequality in the application of income taxation under these laws by reason of the fact that the profits distributed as dividends by all other companies are taxed twice; first in the hands of the company and again in the hands of the shareholder.

"The Royal Commission and the House of Commons committee which enquired into the application of income tax to cooperatives in the U.K. were not faced with a similar situation because of the absence of double taxation on ordinary dividend distributions under U.K. income tax legislation. In effect, only one tax is payable on dividend distributions made by companies or cooperatives

in the U.K. The amount of the tax ultimately payable in both cases is based upon the taxable income of the recipients of the dividends distributed.

"We must conclude, therefore, that the present Income War Tax Act and the Excess Profits Tax Act cannot be applied to cooperatives and to all persons other than cooperatives on a just, fair and equitable basis without so amending the Acts as to eliminate the double taxation of all business profits distributed upon which the present Act is based, and then to tax the undistributed profits of cooperatives to the same extent as all other persons."

Documents filed with brief:

Appendix A -- Data on growth of cooperatives

Appendix B -- Statistical summary of credit unions
in Canada by provinces for 1943
financial year.

Appendix C -- Growth of mutual insurers, 1917-1942

Appendix D -- Excerpts from the Income War Tax Act,
excepted incomes

Appendix E -- List of member Boards of Trade and
Chambers of Commerce polled for
opinions on the principles relating
to equality of taxation as expressed
in the recommendations in this brief.

The Commission thereupon adjourned until
Wednesday, April 11 at 10 a.m.

Canada. Corporation, Royal Commission

ROYAL COMMISSION
ON
CO-OPERATIVES

1945

PROCEEDINGS
(OFFICIAL REPORT)

VOLUME No. XV

PLACE Ottawa

DATE April 11, 1945

PAGES 5268 - 5418

T. S. HUBBARD
OFFICIAL REPORTER

Mr. Vaughan

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ROYAL COMMISSION ON CO-OPERATIVES

Ottawa, Wednesday, April 11, 1945

VOLUME XV

(Pages 5268 - 5418)

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ROYAL COMMISSION ON CO-OPERATIVES

The Commission appointed to inquire into the present position of co-operatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Ottawa, on Wednesday, April 11, 1945.

PRESENT:

The Hon Mr Justice ERROL M. McDOUGALL, Chairman

B. N. ARNASON)	
)	
G. A. ELLIOTT)	
)	Commissioners
J. M. NADEAU)	
)	
J. J. VAUGHAN)	

Eugene T. Parker, K.C. Counsel

Major H. D. Woods)	Associate
J. A. Chapdelaine)	Registrars

Colonel G. W. Ross Executive Secretary

APPEARANCES:

W. B. Francis	Group of Co-operative Associations
G. C. Nowlen	United Fruit Companies of Nova Scotia
W. H. Howard, K.C.	Private Grain Interests
W. P. Fillmore, K.C.	Private Grain Interests
R. H. Milliken, K.C.	Saskatchewan Co-operatives; Associated Growers of British Columbia, Limited, and Affiliated Locals
W. B. Scott, K.C.	Canadian Chamber of Commerce

(Page 5271 follows)

Ottawa,
Wednesday,
April 11, 1945.

The Commission met at 10 a.m., Mr. Justice McDougall presiding:

MR. SCOTT: I take it, Mr. Chairman, that you do not want me to continue with the brief from the point at which we left off yesterday afternoon?

THE CHAIRMAN: Quite so.

MR. SCOTT: I should like to add just this further word; that the brief was submitted to the member boards and chambers of the Canadian Chamber of Commerce, for their consideration; it was submitted to them in mimeographed form. In the printed copy before you we have an addition to the appendices, and a reference to the much discussed subsections of Section 4 of the Income War Tax Act; and a supplementary statement prepared by the executive committee of the Canadian Chamber of Commerce, which we thought might be of assistance to the Commission by way of explanation of the practical extension of the two acts to co-operatives and to all persons other than co-operatives. This memorandum of the general committee was not submitted to all the members. I did not want any misunderstanding to arise in that connection.

THE CHAIRMAN: Then will Mr. Sutherland go in the box now?

MR. SCOTT: Mr. Sutherland is here.

SANDERS H. SUTHERLAND,

Manager of Research Department,
Canadian Chamber of Commerce,
Montreal, P.Q.,
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. Are you an official of the Canadian Chamber of Commerce, Mr. Sutherland? A. I am a full time, paid official, and manager of the Research Department of the Canadian Chamber of Commerce.

Q. Just generally, what are your duties? A. To assist in any way I can, within the scope of my abilities, to prepare documents, pick out references, write precis, and things of that general nature, for the Canadian Chamber of Commerce, as required.

Q. Have you ever appeared in court to give evidence before? A. Not in a court such as this.

Q. This is your baptism in that regard? A. Yes, sir.

Q. Well, this is not a court; this is just a friendly discussion. I suppose you had quite a part in the drafting of this document? A. Yes. The subcommittee, which was responsible for the preparation of the brief, had me as scribe.

Q. What I was getting at is this. Whose is, shall I say, the phraseology; who was the actual draftsman of the various portions of this report? A. I should not like to take either full responsibility or full credit. It was a composite job of the subcommittee, and we all participated in it.

Q. No one individual could be said to be the draftsman? A. No, sir.

Q. How large was that committee? A. We had five members in Montreal and four in Toronto.

Q. And did those two groups get together from time to

time? A. They actually got together once, and I acted as a go-between on the other occasions,

Q. And I suppose there were frequent exchanges of letters, drafts and so on? A. Frequent correspondence.

Q. As a result of all these efforts we have this document as read? A. Yes, sir.

Q. And the mimeographed copy was circulated to the various member boards of trade all over the country? A. Yes, ex the appendix and the supplementary statement.

Q. Including the tables? A. No, excluding them; right up to the recommendations and including the recommendations.

Q. But the appendices were not circulated? A. No.

Q. And naturally the supplementary statement to which Mr. Scott just referred was not circulated? A. That was prepared afterward.

Q. Can you tell me, just offhand, how many individual members make up the total membership of the various boards of trade? Is it 2,000 or 10,000 or 20,000? A. We have not an actual record of that, but we figure approximately 30,000 people, business men, would be represented in the membership in the Chamber.

Q. And that, I suppose, is common knowledge, as we say sometimes; that constitutes a pretty representative group of the business world all across the country? A. We think it does.

Q. I wonder if you could tell me whether there is included in that membership, on at least some of the boards of trade, a large number of so-called co-operatives; that is, persons who subscribe to and sincerely believe in the co-operative method of doing business. Do you know that?

A. We would think, from general knowledge or common opinion, that some of our western boards do include some representatives of co-operatives.

Q. Quite a large sprinkling, I suppose? A. I would not have any knowledge of that, as to the size or volume.

Q. There is nothing in your correspondence that would lead you to that conclusion? A. No, sir.

Q. When this document was sent out to these various boards of trade, I suppose for consideration and suggestions and criticisms, an accompanying letter was sent with it, was it? A. Yes. We have a copy of that letter, if you would like us to table it.

Q. I should like to see it, if you have a number of copies? A. We have here ten copies of the letter and of the form that was attached to the letter and went out with it.

Q. I understand you sent that letter and suggested that if, after consideration, they approved, they sign the attached and enclosed form by way of expressing their views? A. That is correct.

Q. That is the sum and substance of it? A. Yes. Would you like to have that letter read?

Q. I should like a copy of the form, too. A. It is attached thereto.

Q. Those were sent, those two documents, the letter and the form as we will call them, to each Board of Trade?

A. Each member Board of Trade in good standing.

Q. And that included the list which is set out in the brief? A. On page 26. Those are the 133 member boards and chambers.

Q. This is a complete list on page 26, is it? A. Yes.

Q. Of all those to whom you sent those two documents in question? A. Yes.

Q. And appendix "E" on page 26 of this brief is a tabulation of the way they reacted to it? A. That is correct.

Q. It shows those who approved, those who did not approve, and those who made certain comments or approved in part?

A. Yes.

Q. Did you acquire any knowledge from your correspondence, taking those boards of trade in group 1 of appendix "E", which is those concurring in the recommendations, as to whether they were approved unanimously or not, or to what extent the individuals who are listed here as having approved of it did so unanimously? A. Perhaps I can make a helpful statement in that regard. Naturally those who returned ^{the} pink form, a copy of which you now have --

Q. Being the form letter? A. Yes, attached to the letter. Presumably they simply dated and signed the document and returned it to us, and that disclosed nothing.

Q. Without any covering letter? A. Yes. Others did write. I have not a record of the number or the variation in their answers. Some stated that a majority did concur. In some cases, in the third section where we call them non-committal, they were unprepared to declare as for or against the recommendations in our brief, as they then stood.

Q. In some cases they wrote a letter explaining just how it had been done? A. Yes.

Q. Were there many of those? A. Well, we have them divided up.

Q. In the second group? A. In the third group.

Q. You received letters from each of those, outlining how they handled it? A. With the exception of 10. That group 3 includes 38 member boards and chambers, and in that 38

there are 10 from whom we received no replies, so we had to include those as non-committal. We could not call them for, and we do not think we should call them against, or non-concurring.

Q. I doubt if anybody would quarrel with you on the ground that "non-committal" was too strong a term. A. Thank you.

Q. I have in mind one case which was casually brought to my attention. I have no objection to giving you the name. It is the town of Dartmouth, in the province of Nova Scotia. It may be gossip, but in reading newspapers at the time the brief was being considered at a meeting of the Board of Trade there, it was reported that the debate lasted most of the evening, and the brief was finally approved by a majority of, I think, 11 to 10, or 13 to 8, or something like that. I wonder if that is typical of the way this brief was approved, or have you any knowledge of that? A. We have no knowledge of that; but we certainly believe there was a very strong expression of opinion and a great deal of discussion.

Q. That is, you are satisfied that this document was not merely received as a circular letter and signed and sent back without consideration, but that they seriously considered it? A. I believe that that is so in the majority of cases, yes.

Q. Have you any information in any of the cases, when meetings of the boards of trade were called to consider this brief, as to what sort of attendance they had? Let us take a board of trade, we will say, at X, with 250 members. Have you any knowledge as to whether out of the 250 members 15 showed up at the meeting, or 100, or anything like that? A. I have no knowledge of that.

Q. You have no knowledge of that at all? I suppose your experience with boards of trade meetings is quite extensive; and would it be fair to say that in most cases at any rate you do not get a very high percentage of attendance?

A. I think generally the attendance depends upon the interest in the subject.

Q. I think probably that is true. In what category would you place this subject; as one which attracted their interest? A. I think your Commission will agree that it is of very popular interest in Canada to-day.

Q. I do not know that I would agree with the word "popular". A. Well, say widespread.

BY THE CHAIRMAN:

Q. Lively interest, perhaps? A. Yes, sir.

BY MR. PARKER:

Q. That is the way the document was prepared and approved? A. Yes, sir.

Q. Now, would you turn for a moment to the tabulation of figures which you have attached, beginning on page 21? Take the very first table, and let us run through those for a moment. You state that these figures are taken from the Canada Year Book. I suppose you compiled these figures; that would be part of your research? A. Transcribed them from the Canada Year Book.

Q. It would be your job to gather them together, and I have no doubt they are accurate. But I notice you supply data to show the growth of the co-operatives, and take the years from 1932 to 1943. I suppose you would agree with me that the tables show a great increase, both in the number of the associations, the shareholders, the patrons and the total business? A. Yes, sir.

Q. A very great growth there? A. Yes, sir.

Q. I was just wondering why you picked the depths of the depression to start your figures with, and end up at the very peak period of the war, in 1943. Do you think that was really a very good comparison, to show the growth? A. The end period is necessarily limited by the figure available; we have to stop there.

Q. I would quite agree with you on that, but I have a shrewd suspicion that the Canada Year Book goes back prior to 1932. A. I will not question your judgment there; I am not sure of it, whether it does, but that is why I started at 1932. In the next part of that compilation, on page 22, that I secured also, I think, from the Canada Year Book. Those are the figures as reported as being the members of the Co-operative Union in earlier years. The reason we did that was because they were not available through the government records prior to 1932, to my knowledge.

Q. That is, the material set forth in the first table was not available for any years prior to 1932? A. That is as I recall it. That is why we started there.

Q. I really do not know myself, but if you say so --

BY MR. SCOTT:

Q. That is why you put in the table on page 22? A. Yes.

BY MR. PARKER:

Q. At all events, whether they were available or not, I suppose you will agree -- I am not suggesting that you did this deliberately, but I am merely trying to point out that in connection with the value of figures, whether available or not, a great many factors have to be taken into consideration in explaining that growth? A. Certainly.

Q. Namely the depression on the one hand and the peak

period of the war on the other? A. Yes, sir.

Q. Parallel with that, did it ever occur to you, in compiling this, that it might be a good idea to give similar figures of the growth of business of the non-co-operative variety, so as to give some comparison? A. That thought did pass through our minds, but we felt that we were studying the growth of co-operatives; that necessarily there would be fluctuations in the volume of other private business, but that perhaps we were not immediately concerned with that at this time.

Q. I suppose you carefully perused the order in council?
A. Yes, sir.

Q. And discussed it at great length? A. Yes, sir.

Q. Did you notice that the order in council suggested certain comparisons between the one and the other? A. Yes, sir.

Q. And you decided after consideration that it would not be helpful to give the growth of the non-co-operative business as parallel with that of the co-operative? A. Not quite that. I think we felt that it would be awfully hard to select appropriately comparable figures for a particular type of business, or all types of business in competition or in similar lines.

Q. All right; let us go on to the next table, which is headed, "Summary of Annual Balance Sheets and Financial Condition of Co-operative Business Organizations in Canada, 1932 to 1943." Again we have the same period, and we find much of parallel advance as we do in table Fig.1, speaking generally? A. Yes.

Q. And you say that the figures for the compilation of that material were not available, on the same basis as the

other? A. That is right, sir.

Q. On the next page we have another table headed, "Data on Growth of Co-operatives," which has to do with those affiliated with the Co-operative Union of Canada. Where did you get your information? A. The Canada Year Book.

Q. They state that these are the affiliates, as such, of the National Union? A. They had that table in that way.

Q. That is the way it is set out in the Canada Year Book? A. Yes, sir.

Q. And this table carries us from 1907 to 1934? A. Yes. I believe that was the year of the organization of the Co-operative Union.

Q. What was? A. 1909. That was the first year they began.

Q. Why did you stop at 1934? A. It overlaps with the government figures available from 1932 on.

Q. I do not quite follow that. A. From 1932 on the figures overlap the available government records which are more comprehensive, so we transferred to the more comprehensive figures.

Q. On the next page is appendix B, headed, "Credit Unions." That is on page 24. In the first table you deal with the credit unions. That is just for the one year?

A. For the financial year 1943; yes. You will note at the bottom of that table there are comparisons with 1942 and 1941.

Q. Then table C has to do with insurance, and I see that these figures are taken from statistics compiled by the Canadian Underwriters Association? A. Yes; the Canadian Underwriters Association prepared these from the insurance abstracts of the Superintendent of Insurance; his annual reports, which I think are generally referred to as the insurance abstracts.

Q. This is an abstract --? A. No, it is a selection from the insurance abstracts. That is a general term for the annual reports of the Superintendent of Insurance.

Q. But those figures as you have set them out were supplied to you by the Canadian Underwriters Association?

A. Yes, sir.

Q. And they obtained them from the abstracts of the Superintendent of Insurance? A. That is right.

Q. I dare say there are some who might question the accuracy of the work of the Canadian Underwriters Association when they are dealing with mutuals. Have you any knowledge on that? A. We took that in good faith.

Q. Now let us come back to the brief itself; there are just one or two points I should like you to elaborate a bit, if you will. Let us start on page 1. I will read the first couple of sentences to you:

"Inequities inevitably exist in a tax system such as that of Canada which has developed piecemeal over the years."

Now the next sentence:

"Although wrong in principle, in pre-war days the anomalies and inequities in the tax burden did not bear so onerously on the economic system nor work unbearable injustice upon the taxpayers of the nation."

I refer you to that first phrase, "although wrong in principle." What is the principle in our Canadian taxation that is wrong, which you refer to there? A. We are referring to the inequities and anomalies as being wrong in principle.

Q. What are they? A. We think it is inequitable that some should pay more than others, in proportion to their ability to pay.

Q. That is what you mean by that? A. Correct.

MR. SCOTT: With the present exemptions.

MR. PARKER: Now, let the witness answer the question.

Q. That is the principle to which you are referring there, when you say, "although wrong in principle"? A. Yes, the inequality.

Q. What is the inequality? A. That the tax burden should be levied so as to lay an undue proportion upon one group of associations or types of organizations or individuals, in disproportion to the burden laid on others, perhaps through exemptions of the incomes of those people.

Q. That requires the consideration of a great many factors relating to each, in order to find out whether there is that inequality, does it not? A. One of the things we attempt in this brief is to demonstrate that there is perhaps an inequality.

Q. And I think your whole proof is built on what we might call the principle enunciated by a very great economist, that it should be borne according to their ability to pay?

A. That is correct.

Q. You subscribe to that theory? A. Yes, sir.

Q. What do you mean by it? What do you understand by it? A. Ability to pay?

Q. Yes. I think you have quoted it here, and I want the exact expression. A. Adam Smith's quotation is on page 2.

Q. This is your quotation from Mr. Smith:

"The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities --"

That is the expression? A. Yes, sir.

Q. What do you understand by that phrase, "in proportion

to their ability"? Before you proceed with that, let me make clear what I am driving at. Two men, we will say, have the same income of \$10,000 a year. Their necessary burdens, their family commitments and the amount of capital which they have to draw upon may be very different. Do you say that this means literally that the two men with the same income should pay that portion of the income according to their general ability to pay, or what do you mean by that? A. I think that the ability to pay has to be determined by the taxing authority, who are responsible to our democratic parliament.

Q. I am not asking you about who is to determine it. I am asking what the thing is that they are to determine.

A. The ability to pay. Certainly the income tax people, the officials of the Department of National Revenue responsible to parliament, are the people to decide the rate of incidence of the taxation; and presumably they estimate the ability to pay.

Q. That is your understanding of it? A. Yes, sir.

Q. Go on to the second sentence of the second paragraph of the brief, where you say:

"Throughout recorded history man has been actively concerned over the share of his income taken by the tax collector."

How far back do you intend to go there, on this question of income tax? Do you go back to prehistoric days, to the stone age, or where do you begin? Those are extravagant words, rather, do you not think? A. It is rather strong.

Q. Does it mean anything? A. I think so. We intended it to mean that it is not a new principle; that man has always been concerned about retaining as large a share of his income for his own personal needs as possible, while supplying the absolute minimum requirements to the state.

Q. About when, I am asking you, did this income tax

problem become a problem in recorded history; at about what period? A. It precedes the present war, and it precedes the last war, and it precedes the American Revolution, when taxation without representation was one of the very causes of the war. It goes back to Magna Carta, because some of the matters with which Magna Carta was concerned could be properly defined as tax problems. It goes back to the Bible; I think there are references to taxation there.

Q. I would not know, I am sure. A. I just say I think.

Q. However, that is what you meant by that? A. Quite an extensive period.

Q. Then let us get on to the review of the tax structure, on page 2, where you say:

"We are conscious of the pervading influence upon the national economy of taxation policies and of the inconsistencies in the present tax structure as a whole."

Just what are you referring to there; what inconsistencies are you referring to? A. The order in council, P.C. 8725, states that there are doubts -- may I read the section?

Q. You need not read it; I am quite familiar with what the order in council says, and so are the members of the Commission. That is what you are referring to, is it?

A. That is right.

Q. To the inconsistencies referred to in the order in council constituting this Commission? A. And others.

Q. What others; that is what I want? A. Frankly I cannot just state one offhand, but there are frequent references.

Q. Very well; let us go on. Near the end of that paragraph you say:

"At the same time there is urgent need to increase the investment of risk capital and encourage business to expand and increase production."

I am not going to enter into a discussion with you as to what you mean by "risk capital." I do not know what you mean by it, and it is doubtful if I could understand it if you explained it, so I will not take time with it. If the members of the Commission want to ask you about it, well and good. The question I want to put to you is this. Admitting that it is desirable to have expansion of business, to increase production and all that sort of thing, cannot the co-operative method of transacting business meet that requirement just as well as what you might call private business? A. I think I would have to look at the historic record, where most of the expansion has been made, the creation of new jobs and the expansion of new capital assets, has been through private business. American figures illustrate that the capital investment required for one employee, in the average American industry, is about \$5,000.

Q. That is in private business you are speaking of?

A. That is the private capital investment per employee, on the average of all industry types. We understand the co-operatives do not initially set up large capital sums.

Q. I do not care whether they do it initially or a little later on. Have you anything to indicate that they do not require as much capital per individual employee once they get going? A. I do not know that. I think they may very well.

Q. Apart from that, what I am getting at is this. Is it any more in the public interest that business expansion should take place through what you would call the private

system, or the capitalistic system if you like, as distinguished from the co-operative; or whether it takes place through the co-operative system? What difference does it make to the public as long as business expands and grows? A. I think there would be very little difference if they both achieved the same result.

Q. In so far as they achieve employment and increased production and all that sort of thing, is there any difference?

A. If they achieve the same result I would think there would not be any difference to the consuming and the employable public.

Q. What do you mean by that word "result"? You say, "if they achieve the same result." The two results in which I am interested, and which you mentioned, are increased production and increased employment. What other result have you in mind that they might not achieve? A. We believe that the private system will achieve greater results than the co-operative.

Q. In what way? A. Because in the past they have. Private industry has provided much more employment than co-operatives.

Q. Are you hinging your argument on the amount of employment they provide? A. And the productivity.

Q. And the amount of the products produced? A. Yes.

Q. Now, on page 3 of your brief, where you deal with the Rochdale principle, you say:

"They began a venture in trading whereby consumers joined together in an association or society to provide goods and services for themselves at net costs lower than could be obtained in the open market."

As I read that sentence you are stating that their

objective was what we have been calling directed toward a consumer society, supplying goods for themselves? A. I believe that was the original intention.

Q. Is there anything in the Rochdale principle which leads you to believe that they contemplated at that time the producer type of co-operative, and that it would eventually grow and extend not only to the handling of the products of the producer, but to the processing of them, the manufacturing of them, and to the engaging in foreign trade, and that sort of thing? Was that involved in the Rochdale idea? A. The subcommittee has done considerable reading of what sources we had available, in special texts, in the Encyclopedia, and so on, and has reported that according to these sources, we do not know that that was included in the Rochdale Pioneers. That is a matter of our opinion, from our reading.

Q. Then I will put it in this way. If a modern co-operative engages not only in supplying goods to themselves, such as you state here, but engages in handling primary products like wheat, dairy products and so forth and does not stop there but goes on to enter upon the manufacture and processing of these products, and I say to engage in trade of all types, is that in accordance with the Rochdale principles, in your opinion as a research man? A. We think it is a rather wide extension of the original intent.

Q. Was it any more than that, an extension of the original intent; or is that the way you would designate it?

A. I would personally think yes; but again that is a matter of opinion.

Q. Then let us turn to page 4 for a moment, the second paragraph. You are talking now about the growth, and you wind up by saying:

"The larger co-operative organizations necessarily become more and more similar in form of management and methods to ordinary trading firms or joint stock companies carrying on trade or business operations under similar conditions."

Do you think that is true, on consideration, that the size of the co-operative makes it any more like an ordinary joint stock company? Do you emphasize that? A. In the evidence before the Royal Commission in Britain in 1919 I think that was brought out in the evidence several times, and I think it is a natural corollary of size that the bigger you grow the more remote becomes your relationship with your individual member.

Q. That is what you mean? A. Correct.

Q. That the larger it becomes the less personal contact the little fellow away out on the plains is able to maintain, and the less influence he is able to exert on the management of the company? A. Yes.

Q. You are not suggesting that because it is large the fundamental principles are changed, are you? A. No, sir; not through size only.

BY MR. ELLIOTT:

Q. In your opinion is there any relationship between the question of whether a company should or should not be taxed, and the closeness of personal contact that you mention in this paragraph which you were discussing with Mr. Parker? How, in your opinion, is that related to the problems of taxation?

A. I think not. I think the subject of taxation relates to the income that is taxable.

Q. Then what is the point in introducing this subject?

A. It is an attempt to illustrate the evolving away from the original concept of the Rochdale Pioneers of some of the larger

co-operative associations.

Q. Are you taking the position that if they resemble the original they should not be taxed? A. No, sir; we are not taking that position.

Q. Then this is just a matter of history that may be interesting, not specifically related to the problem of taxation? A. Yes, sir.

BY THE CHAIRMAN:

Q. Does it amount to this, that as they get larger and more powerful the temptation to depart from the original principles becomes more manifest? A. I think that is correct.

Q. Is that what you mean? A. Yes, sir.

BY MR. PARKER:

Q. I notice you have quoted quite a bit from the American reports? A. Yes, sir.

Q. In the second paragraph of your quotation I see this:

"English and Scottish consumer co-operatives look toward the ultimate solution of private profit; to the establishment of a co-operative commonwealth in which all business would be done by consumer co-operatives, or divided between the co-operatives and the state."

You have quoted that to this Commission in your brief, and I presume for some purpose. I was wondering if the purpose is because you and the Chamber of Commerce for whom you are the spokesman this morning, feel that this applies to conditions in Canada? A. We do not imply that, necessarily.

Q. Then what is it quoted to this Commission for?

A. We thought it was a pertinent observation from people who have studied the matter in England and Scotland, that that was

an expressed intention or wish of at least some cooperators in the United Kingdom.

Q. Would it have any relevancy in the world to this inquiry, unless you were suggesting that the Commission, being advised that this was their objective over there, they should have a wholesome -- I will not say fear, but a wholesome regard as to whether or not that is the trend in this country, and that something ought to be done about it. Is that the reason you quote it here? If not, what is the reason?

A. We quoted it to illustrate that a movement can exceed its original intent and become perhaps a movement to change principles indirectly, supported by the democratic parliamentary process.

Q. Let us settle this now. Is there a likelihood or tendency, in your opinion and in the opinion of those for whom you speak, that this condition does prevail in Canada? A. No.

Q. Then I want you to make clear, if you will, whether that is something we are to take note of and either encourage or head off, whatever is the proper remedy; or whether it is just meaningless. What is it in here for? A. We do not say that is now a condition in Canada.

Q. You do not? A. No.

Q. You see no signs of that developing? A. No, sir.

Q. Let us get it abundantly clear? A. No, sir. But we say that a system in Canada similar to a system in England, where it could occur, might indicate a possibility of it occurring here at a future date.

Q. Do you know whether it is one of the objectives of the co-operative movement in this country, namely the abolition of private profit? Is that one of the objectives? A. I have never seen that statement.

Q. Have you seen anything that makes you think that is

their objective? A. No, sir.

Q. To take the second phrase of that same sentence, "to the establishment of a co-operative commonwealth in which all business would be done by the consumer co-operatives," have you anything to make you believe that it is the wish of the co-operatives to occupy the entire field and establish a co-operative commonwealth in this country? A. We have not seen any evidence that they wish to restrict their activities.

Q. Will you please answer my question? A. Have I seen any evidence of that wish to make a complete co-operative commonwealth in Canada? Is that your question?

Q. So there will be no mistake about it we will have the reporter read it back, please.

(Reporter reads: "To take the second phrase of that same sentence, 'to the establishment of a co-operative commonwealth in which all business would be done by the consumer co-operatives,' have you anything to make you believe that it is the wish of the co-operatives to occupy the entire field and establish a co-operative commonwealth in this country?")

THE WITNESS: No, sir.

BY MR. PARKER:

Q. That is your answer? A. No, sir.

Q. Then why did you quote it to this Commission? For what purpose?

MR. SCOTT: He has already answered that question.

BY MR. PARKER:

Q. Would you mind answering it again? A. Yes. We quote it to illustrate that where an organization in Canada is similar to an organization in England that does in England uphold or claim these principles, it would be possible for the similar organization here, at some future date, to do so also.

Q. Very good. Now look at the last sentence on that page, or the last short paragraph that you have quoted. I merely ask you if you agree with that principle. A. If I agree with the last sentence?

Q. The whole of the last paragraph. I will read it:

"Any group of people who believe they can purchase their requirements more advantageously through co-operative than through private enterprises should be fairly accorded their rightful opportunity to make the effort."

You agree with that? A. Yes, sir.

Q. And then it goes on:

"But European co-operative leaders themselves uniformly advise us against government subsidies and high pressure government promotion."

You would tender this government the same advice?

A. Yes, sir.

Q. Have you any reason to believe that the co-operatives would not advise the government in the same way, if they were asked? A. I would not know that.

Q. All right. Now turn to page 6; another quotation. You are now quoting from the English Commissioners, are you?

A. Yes, sir.

Q. The quotation is:

"We recommend, in effect, that a society should be treated exactly as a limited liability company trading in similar circumstances and under similar conditions and if our proposals are acted upon it will be necessary to amend the existing law in so far as it confers special exemptions on co-operative societies."

What I am interested in is the first part of that:

"--should be treated exactly as a limited liability company trading in similar circumstances and under similar conditions--"

Do co-operative associations, as you know them in this country, come within that definition? Are they trading in similar circumstances and under similar conditions? I suggest to you that that is the very kernel of the debate, so to speak; that they are not trading in similar circumstances at all, and therefore you cannot compare them, that they are trading in very different circumstances. What do you say about that?

A. Your question, do I think they are?

Q. Yes. You use that expression throughout, "similar circumstances and similar conditions," and you seem to make the assumption there that the circumstances of the two things are the same, and the conditions are the same. I suggest to you that they are entirely different, and that therefore different principles should apply, especially in taxation matters? A. I think as far as the public is able to see the co-operative acts in a similar manner, in trading, buying and selling, up to the point of its relationship with its members, as any other business.

Q. You say that applies? A. Yes, sir.

Q. One hundred per cent? Similar circumstances and similar conditions, and therefore the results should be the same? A. Yes, sir.

Q. That is your argument, and that is your whole brief? A. Yes, sir.

Q. And you do not agree with my suggestion that they are not trading under similar circumstances by any means?

A. I do not think so.

Q. Very well. Now go to page 8, and this is the sentence which I think Mr. Scott called special attention to yesterday, when he was reading the brief. I refer to paragraph 556, in the middle of the paragraph:

"That profit is the difference between the sale price of the goods and the cost price of the goods plus the expenses of management; and the true sale price of the goods is not the nominal price which the society received on making a sale to the purchaser, but the net sale price remaining in the hands of the society after it has returned to the purchaser a discount in the form of a dividend on purchases. These dividends on purchases are not a distribution of trading profits, but a return of part of the purchase price."

Do you agree with that, that the dividend, the "divvy" as they call it in England, is not a profit at all? Are you agreeing with this recommendation, or are you disagreeing with it? What are you quoting it for? A. That that part of the dividend that is returned of the purchase price? Yes, sir.

Q. What is that? A. That that part of the dividend that is a return of the purchase price or an adjustment of prices; yes.

Q. That part is what, profit or not profit? A. It is not profit; it is cost.

MR. VAUGHAN: What is that paragraph 556 that was quoted there? Where does it come from?

MR. PARKER: It is the English report of 1920.

MR. SCOTT: It comes into the report made by the parliamentary committee in 1932.

MR. PARKER: I thought it was in the English report.

THE WITNESS: It is.

MR. SCOTT: It is referred to in paragraph 21 of the parliamentary committee report of 1932 also.

MR. PARKER: Let us get this straight.

MR. SCOTT: You have to read paragraph 21 with it.

BY MR. PARKER:

Q. Let us read the whole thing, because I think it is worth pausing over for a moment:

"In making these recommendations we are of opinion that we are not in any way enlarging the scope of the present income tax. We have not sought to widen or to narrow the conception of trading profit, for we think that from the transactions of a co-operative society with its members and with non-members a true trading profit can and does emerge."

You agree with that? A. Absolutely.

Q. Then the quotation goes on:

"That profit is the difference between the sale price of the goods and the cost price of the goods plus the expenses of management; and the true sale price of the goods is not the nominal price which the society received on making a sale to the purchaser, but the net sale price remaining in the hands of the society after it has returned to the purchaser a discount in the form of a dividend on purchases. These dividends on purchases are not a distribution of trading profits, but a return of part of the purchase price."

I say you quote that, and you agree with it, and your people agree with it? A. Yes.

Q. Am I right in saying this, then, that they are agreeing to this, that in so far as consumer co-operatives operate in this country, who are supplying goods to their members and charging them the going price, as they say, at the time of delivery; and then at the end of the year give them something more, you do not suggest that that should be taxable?

MR. SCOTT: I think, Mr. Parker, it would be more logical and convenient for the Commission, if you are now coming to our recommendations, to deal with them as a whole and not by

putting one sentence from the report of the English committee, or the parliamentary committee report of 1932, to the witness. Our submission is that in order to remove anomalies and establish equity of taxation as far as possible we should remove the double taxation and adopt in effect the English principle; and until that time patronage dividends be maintained, as we understand them to mean; and I think it would leave a confused feeling with the Commission and my learned friend and everybody else just to select one portion of that recommendation for treatment at the present time. Our recommendations are three in number, and they have to be treated as a whole. I think in fairness to Mr. Sutherland that should be done.

THE CHAIRMAN: I think Mr. Sutherland is doing very well.

MR. PARKER: My learned friend need have no apprehension that I will neglect his recommendations at the end. I am leading up to them.

BY MR. PARKER:

Q. Would you mind answering the question? In order to refresh your memory I will ask the reporter to read it.

(Reporter reads: "Am I right in saying this, then, that they are agreeing to this, that in so far as consumer co-operatives operate in this country, who are supplying goods to their members and charging them the going price, as they say, at the time of delivery; and then at the end of the year give them something more, you do not suggest that that should be taxable?")

THE WITNESS: We think that any part of the cost of carrying on business should be accepted as such.

BY MR. PARKER:

Q. Is that your answer to my question? A. Yes, sir.

Q. Very good. You are the man to make the answers, not

me. If you think that is a satisfactory answer, that is all right. Now we go on to page 11, where you deal with the question of growth under tax exemptions. There you say:

"The term 'co-operatives' has come to be used in a very loose sense for income tax purposes."

Who uses it in a very loose sense? A. It is commonly used in that sense, I believe.

Q. You are not suggesting that members of the board use it in a loose sense? A. Press reports; and again I refer to the order in council, which says there is some doubt as to what a co-operative is.

Q. That is what you mean by that? A. Yes.

Q. Then you go on:

"In fact it would be possible for some commercial enterprises to adopt the co-operative form or title for the purpose of obtaining the tax exemptions contained in the Income War Tax Act."

What do you mean; that an ordinary joint stock company could switch over, by changing its name, and call itself a co-operative? A. No; we mean that a private individual operating a retail store could incorporate or at least form a co-operative association to buy up his business assets, and act as manager for them.

Q. Supposing he did; what harm is there in that?

A. We do not say there is any harm; we say we think he could do it.

Q. You are not carrying that on to joint stock companies, then? A. Not necessarily.

Q. You mean individual operators only? A. That is our example; yes.

BY MR. ELLIOTT:

Q. Would you really say, then, that the former owners of the concern could change it to a co-operative concern?

A. The business entity would be.

BY MR. PARKER:

Q. Then there is a sentence here which I thought might attract some attention on the part of certain interests:

"Others like the western wheat pools which prior to 1930 presumed to be purely farmers' grain marketing agencies, handling their grain as agents or factors with an obligation to pay the producer the market price of the grain, less handling charges and contributions to reserves which remained the farmers' property, have since become large commercial businesses."

What do you mean by saying that prior to 1930 they presumed to be purely farmers' grain marketing agencies? A. In our reading we read part of the evidence before the Supreme Court in 1930 in the case between the Minister of National Revenue and the Saskatchewan Wheat Pools.

Q. And this was a summation of what those cases held?

A. Yes.

Q. Prior to 1930 did they not presume to do business much more than merely act as agents for their members?

A. That was my reading of that evidence.

Q. The evidence, or the reported case? A. The judgment, sir.

MR. SCOTT: It was our reading of the judgment in the 1930 case in the Supreme Court. That is what that is intended to say.

BY MR. PARKER:

Q. But you say that was their condition then, but now

They have become large commercial businesses. Supposing they have become large commercial businesses; what is that intended to mean? What inference are you asking the Commission to draw from that? I think they will admit that they have become large businesses; and I dare say they will say they are commercial businesses, if you add that further adjective "commercial" on to a co-operative system. I dare say they would agree with that.

MR. MILLIKEN: They would say they were large businesses before 1930.

MR. SCOTT: You have to read the next sentence, too.

BY MR. PARKER:

Q. I will read it all:

"They buy from the farmer and sell on the market having the same control over their assets and following the same practices as their private or corporate business competitors."

On what authority do you make that statement? A. In addition to an expression of opinion from our reading, again, I would ask Mr. Scott to tell you --

Q. No, I would rather you told me on what authority you or the Board of Trade make that statement. It is a statement of fact, not an opinion or an argument at all. It is a statement of fact, and you know whether or not it is true. A. I think we asked our counsel to secure some of the information that is being presented to the Exchequer Court, through his Ottawa representatives, but we were unable to secure that; but we think that information would be able to demonstrate to your Commission a great many of the points there.

Q. Now let us get that straight. You have opened up a very interesting matter there, I think. Your counsel

endeavoured to get from Ottawa certain statements that had been filed in reference to certain cases pending in the Exchequer Court?

MR. SCOTT: Let me explain that. Our committee understood that that sentence represented the factual situation, that last sentence in this paragraph; and to support it I inquired from our correspondents in Ottawa if, as we understood it, there were three pending actions in the Exchequer Court, taken by the Minister of National Revenue against certain wheat pools. We have no concern with that litigation in any shape or form, but it did occur to me that the statements of claim filed by the government in these three cases would contain factual information from the offices of the department that would be matters of public record; and, being a public document in the Exchequer Court, we would have that available to support that sentence. But the ruling was that these records are not available to anybody except for the attorneys of record, so we were unable to give the figures that I felt would be in those documents.

MR. PARKER: And meeting with that difficulty --

MR. SCOTT: The general feeling of the committee was that this statement represented the truth, to the best of our knowledge and belief. I thought I could have it supported by the statements of claim filed in those cases, and I have been unable to get them. As a matter of fact we are not attempting in this brief, all the way through, to deal with any particular business.

THE CHAIRMAN: You will probably hear a great deal more about that sentence the week after next.

MR. SCOTT: Quite so; and I want to emphasize that all through the brief we are not attempting to go into the details

of the business of any particular person or group of persons. That sentence occurs there because it is a matter of public notoriety that the grain cases are one of the things before the public. That is the explanation. Nor are we anywhere through the brief attempting to attack the idea that people should not be able to do business on a co-operative basis.

MR. PARKER: Well, make your argument after I am through, please. The only comment I have to make is that not having been able to get the facts and have them verified, then I wonder why you let it go at that instead of making the statement that these were the facts that you presumed were in these documents.

THE CHAIRMAN: I have very often heard counsel make statements which they hoped would be proved later on.

MR. PARKER: But this is not counsel; this is the Chamber of Commerce.

THE CHAIRMAN: Supported by counsel.

MR. SCOTT: This brief had to go out by a certain date. There was a deadline to meet, and if we have not been able to get the records since then, at least we have done the best we could.

BY MR. PARKER:

Q. On page 12, in the paragraph beginning at the bottom of page 11, you say:

"In the period between world wars I and II many influences were contributing to the development of co-operatives but one conclusion seems reasonably clear. After a slow rate of growth over many decades the rapid expansion of co-operatives and mutuals in Canada has been substantially enhanced by their exemption from liability for income taxation. The record supports that conclusion. While this position of special

privilege is maintained the expansion of co-operative and mutual associations will continue, leading finally to the removal of a considerable part of the commerce of the country from the taxable to the tax-exempt form of business organization. This will result in a loss of revenue to the government and the shouldering of additional burdens by the tax-paying citizens.

What you are saying there, I suppose, is simply this; that the more people who are exempt, the revenues go down from that source, and somebody else has to make it up?

A. Yes, sir.

Q. But you are not overlooking the fact that, as the co-operative associations as such are exempt from taxation, where dividends are paid out to the members, those individual members pay very much increased income taxes, to take up a substantial portion of the slack. You are not overlooking that? A. On that part paid out. We are aware of that.

Q. Have you made any study to ascertain how much of that apparent loss by reason of the exemptions is made up by the increased taxes paid by the individual members? A. We would very much like to have made that statement, but unfortunately we think that substantially most of that income tax revenue information is only available in the Income Tax Department.

Q. I say you did not feel that you could make a study that would be profitable or helpful? A. We think it would be better to have that information, but it is not available to us from the National Revenue department.

Q. But you will agree that the general principle is correct, that there would be, what shall I say, a substantial taking up of the apparent loss? A. I have no way of knowing.

Q. And you would not care to express an opinion?

A. I would think there might be some.

BY MR. VAUGHAN:

Q. Perhaps before passing that sentence it would be well to reconcile it with the reply Mr. Sutherland gave a while ago; when he said there was no harm in privately owned businesses selling out to co-operatives. This last sentence would indicate a different reply to that question, where it says, "This will result in a loss of revenue to the government." The two do not seem to gibe? A. I think you are correct; mine was rather a narrower statement than your amplification of it. There might be an influence resulting from that, affecting the national revenue.

Q. That is what I am not clear about, as to whether you had the national revenue in mind at all when you replied previously? A. I am afraid I overlooked that, sir.

BY MR. PARKER:

Q. I turn now to page 13, the second paragraph on the page, where we are coming to this legislation:

"The co-operatives, through their union, made representations to the Income Tax Commissioner that they were in effect mutual non-profit organizations and that 'profits' from business operations with their members were not comparable to profits of joint stock or private companies trading with the public."

On what basis do you make that statement? A. That is in conversation with government officials, sir. I came to Ottawa, of course, to discuss the matter informally and gather as much background as I could.

Q. And you say it was on their representations that your argument or brief was drawn up? A. I would like to

read in connection with that, as relevant, what Mr. Dunning said in his consideration of this matter in 1930.

Q. In the debate? A. From Hansard.

Q. You need not bother, because the Commission has already seen and read it.

MR. SCOTT: But there is one particular sentence.

MR. PARKER: Very well; I do not wish to shut you off.

THE WITNESS: This is Hansard for the session of 1930, Vol. 3, page 2509, where Mr. Dunning said:

"I was interviewed by representatives of co-operatives from coast to coast."

Q. Does it contain any words saying that he is giving effect to their recommendations? A. No, he does not say that.

Q. Then I refer to the last sentence of the next paragraph:

"Apparently, there was little anticipation of ^{the} significant effect this exemption would have upon the national revenues as co-operatives developed in size and numbers and expanded into new fields of operation."

That is the point about which I asked you a while ago, whether the size of these monsters makes any particular difference. It does not change their nature, does it? A. No, but there I am referring to the loss in national revenue.

Q. Now I go to page 15. It is the same question again that I asked you before, about carrying on business in similar circumstances and under similar conditions, and so forth; but in your argument there are you not overlooking the fact that a great deal of the business, at any rate, of these co-operatives is done on a consignment or agency basis; and does that not make a difference? A. That may be, sir.

Q. I know it may be, but do you not agree that it does?

A. I would have to know more about the contracts. I do not know the details of those cases you are referring to.

Q. I am not referring to a particular case but to a system of doing business. The co-operative handles the products of its members on a consignment basis. They do not buy them; they merely handle them? A. As an agent, you mean?

Q. Yes? A. I would think as an agent, the agent would return all the income accruing to his principal.

Q. He would be under an obligation to deliver it at the time or at some later date. You would not consider that profit, though, would you? A. Not in the hands of the agent. It would not be his.

BY MR. ARNASON:

Q. At the end of that same paragraph Mr. Parker was asking you about, you state:

"Few operate as mere agents for their members."

I wonder on what information you base that conclusion. Have you any statistical information? A. No; again that is on the general reading we had to do to get this thing prepared. We read all we could find; the Western Producer; the Canadian Cooperator, and so on, and that was to the best of my belief and opinion, after reading this background.

Q. Then one more question in connection with that. Suppose a producer marketing co-operative accepts agricultural commodities from its members and takes title to those commodities, but is under a definite obligation to pay to the producer member all that remains from the proceeds of the sale price, after deducting designated operating expenses. Would you say that that is an agency? You will notice the words I use, "taking title to the commodity." He is under

that obligation, nevertheless, to return the entire proceeds to the shipper, after deducting designated operating expenses.

A. And you say, do I think that would be an agency?

Q. Yes? A. I am afraid I would not like to say, because I have not the legal qualifications to define it.

THE CHAIRMAN: That is a very wise answer, I think.

BY MR. PARKER:

Q. Then may I direct attention to the bottom of page 16 and the top of page 17, where you use this expression "risk capital" again, and talk about the expansion of business, and you say:

"Taxation policies which now influence practically every financial decision made by business management, will need to be framed so as not to discourage saving and the free flow of risk capital to the end that trade and business will expand and increase production."

Then you go on in the next paragraph and argue, in effect, that the tendency by reason of these exemptions is for the taxpaying business to convert things in some way into a non-taxpaying class? A. Or to refrain from expanding.

Q. But from the standpoint to which they may or do convert, in order to get rid of the burden, as I put it to you before, what harm is there in that? Let them convert, that is all. If there is a better way of doing business, who would not do it? A. If it is on a fair and equal basis of treatment; certainly.

Q. But I say that if a private, ordinary, joint stock company finds that it is paying more taxes than it thinks it should pay, and that it can convert into the co-operative type of business, why does it not do so; and why not let it do so, and why not urge it to do so? A. You mean why not

from the public interest?

Q. For any reason. What reasons are there against it?

A. On page 5, quoting from the observations at the United States inquiry:

"They (co-operatives) should avoid the lure of a co-operative monopoly. There seems to be no reason to believe that the stimulus of competition is needed any less by co-operative than by private business, or that a co-operative monopoly would not stop progress just as surely as private monopoly does."

Q. But no more so? A. We do not say any more so.

Q. Can you sum up in a word what is the objection to everybody going co-operative, if it is a good form of business? That is my point. A. If it is a good form of business.

Q. You do not say that it is not, do you? You would not argue that? A. I think individuals have the right to choose which form it should take.

Q. And he who chooses one should not object to he who chooses the other? A. On an equal; yes.

Q. Perhaps we are getting back to the same old question? A. I am afraid so.

Q. Now let us come to these recommendations, and then we will be through. As a result of all this, this is what the board recommends.

"(a) That all persons carrying on the same or similar businesses in Canada be subject to taxation on the same basis under these acts and be subject to the same administrative rules and regulations in computing what shall constitute taxable profit."

When you say "carrying on the same or similar businesses" do you mean in the same way, similar businesses conducted in

the same way, or irrespective of how they are conducted?

A. That is an attempt to say likes and likes, to compare like with like.

Q. That is, a man engaged in the wheat business, we will say, dealing in wheat, irrespective of what methods he employs in the dealing with his wheat, you say they are the same, the principle remains the same; is that it? A. Yes.

Q. And should be taxed the same? A. Yes.

Q. In other words you allow for no distinction on the incidence of taxation between the co-operative method and the ordinary joint stock method? A. In the application of the income tax to income?

Q. Yes. Is that your position? A. Yes.

Q. All right; let us pass on to the next recommendation:

"(b) That the double taxation of income paid out as dividends which the present Income War Tax Act imposes on all persons subject to taxation thereunder be eliminated."

Would you amplify that just a little? Double taxation on what? A. On income paid out as dividends.

Q. You are referring to ordinary joint stock company dividends; is that it? A. Yes.

Q. And you say that inasmuch as in the ordinary joint stock company the company has first to pay corporation income tax, and if it has anything left out of which to pay dividends, the person who receives the dividends has to pay income tax on them? A. Yes, on the same income again. The income tax is paid on the income received by the corporation, and the shareholder pays again on that same income, which he receives as dividends.

Q. And you say that system should be eliminated?

A. It seems inequitable to us, and we recommend that it be eliminated.

Q. But are you suggesting that the system of double taxation be eliminated? A. Yes, sir.

THE CHAIRMAN: Is that recommendation based on the terms of the reference?

MR. SCOTT: In our submission it is. We considered that point very carefully, and if you will look at the latter part of the terms of the reference it says this:

"--and report all facts which appear to them to be pertinent for determining what would in the public interest constitute a just, fair and equitable basis for the application of the Income War Tax Act and the Excess Profits Tax Act, 1940, to co-operatives and to persons other than co-operatives in respect of methods of doing business analogous to co-operative methods, such as the making of payments commonly called patronage dividends --"

Then here is the part:

"--and to make such recommendations for the amendment of existing laws as they consider justified in the public interest."

In effect this recommendation (b) is a recommendation that the English system be brought into being here. "Existing laws" we take to mean all existing laws.

THE CHAIRMAN: That is, you invite us to scrap the present Income War Tax Act and substitute another; is that it?

MR. SCOTT: Oh, no; not at all. We leave the present act, but we would recommend amending it in such a way as is presently in effect in the English income tax.

MR. PARKER: I do not wish to enter into an argument on this point at this time, but I think I should say, in regard to the clause my learned friend just read --

"-- and to persons other than co-operatives in respect of

methods of doing business analogous to co-operative methods --"

-- if he wants to argue that the methods of joint stock companies are analogous to the methods of co-operatives, he may be right. However, I do not think this is the time to argue what that means.

BY MR. PARKER:

Q. Whether relevant or not, that is what you are suggesting? A. Yes, sir,

Q. That the double tax on those dividends should be eliminated? A. Yes, sir.

Q. How do you eliminate it; by eliminating the corporation tax or by exempting the recipients of the dividends? There are two ways to eliminate it. Which one do you suggest?

A. Paragraph (b) does not say to lift the corporation tax. We would not imply that by this statement at all. We want the government to implement the removal of that duplication.

MR. SCOTT: What we want is to have the recipient given credit for the tax paid by the corporation.

BY MR. PARKER:

Q. But this is what it is, so we will understand it: that the double taxation on income be eliminated. A. That double taxation on income paid out as dividends be eliminated. We do not suggest any one of two or three alternatives.

MR. SCOTT: That is in the supplementary statement.

MR. PARKER: But the supplementary statement was drawn up only by the executive committee. It may be perfectly sound, but the recommendations which are here were approved by all the boards across this country, and I am trying to find out just what they are. I am trying to discover whether you are suggesting that the corporation tax be eliminated, or whether

you are suggesting that the corporation tax be paid, as now, and that the recipients of the dividends should be exempt in respect to those dividends.

MR. SCOTT: Take credit for it.

MR. PARKER: Let the witness answer.

THE WITNESS: We ask for the elimination of the double taxation on income paid out as dividends. We do not indicate any particular method that the government should follow.

BY MR. PARKER:

Q. That is fine; if you will leave it at that I am quite satisfied. Now we come to recommendation (c), and apparently this is one about which there was some doubt among your members:

"(c) That until such double taxation of all income paid out as dividends is eliminated, the 'patronage dividends' of co-operative or mutual companies and associations be dealt with in the same manner as all other dividends which are not now exempt from taxation as income of the payor."

Frankly I cannot quite follow that. If the Commission understands it I will not waste any more time on it. Just what is it you are recommending to be done about that? Perhaps Mr. Scott will explain that better than you.

MR. SCOTT: It is the understanding of our committee, Mr. Chairman, that "patronage dividends" are all payments by way of dividend, rebate, discount or bonus, other than ordinary trade discounts or price adjustments such as are now permitted to other taxpayers as deductions from taxable income.

MR. FRANCIS: I wonder if that could be read slowly, so we can get an exact copy of it.

MR. SCOTT: Yes, I will read it again: "patronage dividends" are all payments by way of dividend, rebate, discount

or bonus, other than ordinary trade discounts or price adjustments such as are now permitted to other taxpayers as deductions from taxable income.

BY MR. VAUGHAN:

Q. In connection with these recommendations, recommendation (a) refers to persons carrying on business on the same basis, and so on. I have to go back to the first paragraph to get to what I am referring to: "whether organized as corporations, co-operative or mutual companies." What was meant by "mutual companies" there? Does that refer to mutual fire insurance companies, or does that just refer to mutual trading companies? A. We have to rely on the definition in Section 4(g), which says:

"--the income of mutual corporations not having a capital represented by shares, no part of the income of which inures to the profit of any member thereof --"

It is so broad and indefinite we left it in that way.

Q. Is this intended to come within that broad recommendation, and apply to mutual fire insurance companies?

A. Yes. The only exceptions we made in the brief are life insurance companies, which we feel are different.

Q. And is this intended to cover credit unions? A. Yes, sir. We have quoted section 4, subsections (g), (i), (p) and (q) with the exception of life insurance companies.

BY MR. ELLIOTT:

Q. On page 17 of your brief you raise a rather fundamental issue which I would like you to explain, if you will, because it was rather refreshing to me after the last month or so. You say:

"--the real burden of taxation imposed upon the company cannot be separated from the individuals who are associated in one

way or another in its operations as customers, employees and shareholders --"

I take it that means this, that in considering the equity of a tax system you have to see how it affects real human individuals, one against the other; is that it? A. Yes; that taxation is not simply limited to the immediate incidence, but permeates through the whole economy, affecting all those involved in the operations.

Q. That while a company may pay a tax, one cannot consider the real equity of it without seeing how human individuals, and not merely the corporate personality, are affected? I am asking, was that your meaning, was that what you had in mind? A. I think that is perhaps a rather broad interpretation. I think we mean by this paragraph that taxation, as we said earlier, affects the decisions of business men, and that our interpretation of equitable taxation would mean that all business men would have a fair chance, a fair field and no favour, to secure the greatest productivity and employment; and we feel that those two factors increase the well being not only of the corporate body but of the employees, the shareholders and the consuming public, and of course the National Revenue department through their increased taxation arising therefrom.

Q. You go on to say:

"When any particular form of trading or business organization (such as co-operative and mutual companies) is exempted from taxation which is imposed upon other organizations then it is not the company which is relieved of the tax but the subscribers, members, employees and customers of one kind of company or organization who are exempted from taxes which are imposed upon the shareholders, employees and customers of

other enterprises."

I am wrong, then, in interpreting that to mean that you are not placing much emphasis on the personality of the corporation, as such? A. I am afraid we tend to somewhat agree with the British point of view, where the corporation is nothing in itself but a channelization of the income, or the instrumentality for raising income which properly belongs to the individuals who control the corporation. It is only a means for them.

Q. On what grounds is that view based or on what grounds do you accept the view? A. A corporation to me is the bricks and stones and machinery. The thing that makes it go are the men who own or control or operate it, or work in it.

Q. And how is that related to the principle of the ability to pay? A. Through the success of the men who operate the corporate body. Their success depends to a degree upon how well they meet the wants of their customers.

BY THE CHAIRMAN:

Q. Are you thereby meaning to weaken the idea of a separate legal entity, which has been established by the courts on many occasions? A. No, sir.

Q. You regard a corporation as separate from its shareholders, members or whatever they may be? A. Certainly, sir.

BY MR. ELLIOTT:

Q. But for tax purposes? A. We are thinking of the results, not the incidence, if I can make that clear.

Q. You are not thinking of the entity that pays the tax but the effect on the human individuals? A. Related to the entity.

BY MR. NADEAU:

Q. What is the prevailing type of co-operative in

Great Britain, compared to what we have here in Canada?

A. Without full knowledge, Mr. Nadeau, I would think that the predominant type would be the consumer co-operative, there.

Q. And what would it be here, to your knowledge? A. In magnitude of transactions I would think the producer type, in Canada.

BY MR. ARNASON:

Q. In your reply to Mr. Vaughan you stated that credit unions were included in your recommendation, that is your general recommendation (b)? A. Yes, and the general content of the brief.

Q. I just wonder whether you would care to develop your ideas a little further, as to in what way ordinary corporate business is affected by the operations of credit unions, which deal only with their members? A. Ordinary corporate business?

Q. Yes? A. I am afraid I cannot answer that. I am sorry.

Q. Let me put it in this way. Was it your idea that in including credit unions, you are including them simply because they are exempt under the Income War Tax Act, and you include them as a matter of course? A. May I just rephrase that slightly? There we have tried to lay down our general belief in the general principle of equality, and we felt that those four types listed under Section 4(g) (i) (p) (q) were the ones applicable to the present study.

Q. You had no information, then, as to the extent to which private business is affected by credit unions? A. I think possibly credit unions do serve a useful purpose in particular circumstances. I am afraid I cannot give specific

examples of how they affect private corporations. They might be good or bad; I have not that information.

BY MR. ELLIOTT:

Q. Do you know whether there are any of the members of your associated bodies who regard credit unions as being their direct competitors? A. I have no knowledge of that.

BY MR. VAUGHAN:

Q. Mr. Sutherland, this is not what is meant, that credit unions would be one of those businesses that would come under your reference to "similar businesses." That is, what would be a similar business to a credit union? Perhaps you did not intend to compare a credit union with a merchandising business, but with a financial business? A. That would be a closer approximation, I would think; the personal loan business, perhaps.

Q. That is, under your wording "similar businesses" perhaps it might be the banks, I do not know, or people who conduct financial businesses? A. In a very broad, general sense a financial institution would cover both kinds; perhaps a bank and perhaps a credit union.

Q. That is the point, whether that is what you meant by that; whether a similar business would be a business of the same kind rather than comparing a credit union with a merchandising business, a producer co-operative or a consumer co-operative? A. That would be so, I think.

MR. ELLIOTT: I think perhaps that was the point Mr. Arnason had in mind.

BY MR. HOWARD:

Q. There is just one point in relation to this supplementary brief of your executive committee. I want to make it clear in my own mind that your conclusion that the Income War

Tax Act cannot be applied to co-operatives without modification relates only to the type of co-operatives that you appear to be dealing with. Your premise is on page 27:

"In the case of dealings by co-operatives with their members, the basis of their agreement is that the price, as between the co-operative and its member, is not established until the cost of the transaction can be ascertained. This is done by agreeing initially upon a provisional or billing price (which may be more or less than the final price of the goods) and later adjusting it through a discount, rebate, dividend or bonus."

The point I want to make clear is that your conclusion is related exclusively to co-operatives that function in that particular way? A. Yes. I think that is included in the definition of the patronage dividend which Mr. Scott read into the record.

Q. I want to make that clear, because there are quite a few co-operatives, or people who call themselves co-operatives, who do not function clearly on that basis; and I wanted to make sure your conclusion was based on the premise that that was the type of co-operative which involves you in the computation which you detail.

MR. SCOTT: I may be stupid about it, but I do not quite follow Mr. Howard's question.

MR. HOWARD: On page 27 you have two sentences which make positive statements as to the way co-operatives function. We have discovered during these hearings that there are many organizations which do not function on that basis. I want to find out if the conclusion of the executive committee in the last paragraph is related only to co-operatives which function only on that basis. You use the word "co-operatives" there in

a general sense, as though you were talking about everybody; and for myself I do not think there is any difficulty about taxing the types of co-operatives that do not function on that particular basis.

MR. SCOTT: I believe that is a matter of argument and inference. I do not think this witness is in a position to amplify the instructions expressed in writing there.

THE CHAIRMAN: Mr. Howard is on record with his observation in regard to that paragraph, which I think covers his point.

MR. SCOTT: Mr. Howard makes an observation which draws attention to certain matters in the statement.

THE CHAIRMAN: Quite.

MR. SCOTT: But I do not know that Mr. Sutherland, a witness, can amplify or write conditions into the written brief.

THE CHAIRMAN: If Mr. Sutherland wishes to answer he may do so.

MR. PARKER: There is just one observation I should like to make, so it will be on the record. In the early part of my examination I was dealing with how this brief was circulated. I noticed later that the letter only asked that it be submitted to the councils, the various councils of the boards of trade. I was under the impression that it had been submitted to the full meetings of the boards of trade, so there would be wide distribution.

BY MR. SCOTT:

Q. Do you have any knowledge as to whether they called a full meeting, or whether it was dealt with by council, or whether it was left to be dealt with under their local by-laws, as they saw fit? A. I think Mr. Parker was just observing

that fact,

BY MR. MILLIKEN:

Q. Just as a matter of clarification -- and perhaps Mr. Scott will answer this -- dealing with the very point Mr. Howard brought up, there is apparently a discount or a rebate or a dividend or something being paid, referred to on page 27; and I would take it from the wording of this section that you think that is a proper deduction before arriving at taxable income. Is that right? A. We think that costs of carrying on business are properly deductible.

Q. You think this discount referred to on page 27 is a proper deduction before arriving at taxable income?

A. Would you quote me the sentence?

Q. I am referring to the section that Mr. Howard quoted:

"Therefore, until this discount, rebate, dividend or bonus is determined in respect of any transaction it could be contended that the transaction is not completed and consequently that no taxable profit thereon could be determined."

Do you agree with that? A. Yes.

Q. You agree with that statement? A. Yes. That relates to this payment or adjustment of price referred to in the prior sentence.

Q. Then if you agree with that statement, how do you reconcile it with the definition Mr. Scott read of a patronage dividend, which is referred to in recommendation (c) on page 20? Mr. Scott did not allow for that type of payment at all?

A. I do not think that is contradictory.

Q. You do not think it is? A. No.

Q. It is certainly a dividend of some type for which Mr. Scott did not allow in his definition? A. I think not.

BY MR. HOWARD:

Q. That is just the point I am trying to make. I want

to make it clear that you are speaking, in this supplement, only of these particular types of co-operatives; and that it is only their dividend or their discount or bonus, and so forth, that involves the difficulty of determining their taxable profit? A. As stated in that sentence.

Q. In other words, although you use the word "co-operative" generally as though all co-operatives function on that basis, you are talking only about a particular type of co-operative which functions on a particular basis; and for that co-operative you visualize the difficulty of applying the Income War Tax Act? A. Yes. We recognize that difficulty very clearly.

MR. MILLIKEN: If what you have just said is so, it seems to me the definition of a patronage dividend which Mr. Scott read would require some modification.

MR. SCOTT: I do not see that at all. It is a matter of argument.

THE CHAIRMAN: We are not going to modify it now; that is quite clear.

MR. SCOTT: That is so. We have the definition.

THE CHAIRMAN: Yes, and we will look it over in due course.

MR. VAUGHAN: What is the effect of this supplementary statement on the recommendations (a), (b) and (c)? The effect of (c) is deleted altogether, is it?

BY THE CHAIRMAN:

Q. No. I understand this is merely additional recommendations made by the executive committee, which have not passed through the various boards throughout the country?

A. Yes.

MR. VAUGHAN: My only point is that recommendation (c)

recommends one thing, and this recommends another.

MR. SCOTT: It is not our understanding that it is in any way in conflict with the recommendations which were submitted to the members. That is the last thing we would have in mind. It speaks for itself. It says it is intended as a supplementary statement on the practical application of the Income War Tax Act and Excess Profits Tax Act to co-operatives and all persons other than co-operatives, and emphasizes the submission we made in recommendations (b) and (c), that until double taxation is removed by permitting the recipient of dividends to take credit for what the corporation has already paid, inequities and anomalies will exist in our present system.

MR. VAUGHAN: Well, as long as we understand it.

MR. SCOTT: It was to emphasize that point, and make it more clear.

THE CHAIRMAN: Your contention is that the supplementary statement supports the conclusions at which you have already arrived in the main brief?

MR. SCOTT: Quite so. The executive committee would not have been free to put in something different, in the way of a recommendation, after polling 133 members from coast to coast. It also emphasizes paragraph 5 of our conclusions, where we say:

"Compared with the tax exemption granted co-operatives, the profits or surpluses of other companies, to the extent they are paid out as dividends to shareholders, are taxed twice, once in the hands of the company and again in the hands of the shareholder. This is inequitable."

It supplements that paragraph in greater detail.

BY MR. ELLIOTT:

Q. Is it also part of your intention to explain how the two sorts of concerns can be taxed subject to the same administrative rules? A. No, we do not go that far. We tried to illustrate the difficulty of that.

MR. PARKER: Next come the United Fruit Companies of Nova Scotia Limited. My learned friend Mr. Nowlan, K.C., I believe is responsible for the brief.

MR. NOWLAN: Mr. Chairman, the United Fruit Companies have filed this memorandum, which will be read, and I have a witness here in support of it. It occurred to me, subject to the direction of this Commission, it might perhaps facilitate matters if I read the brief myself, instead of having the witness read it.

THE CHAIRMAN: I think that would help us greatly, since as usual we are pressed for time.

MR. NOWLAN:

"Brief submitted on behalf of
The United Fruit Companies of
Nova Scotia Limited."

"In this memorandum, it is proposed to briefly sketch the history of The United Fruit Companies of Nova Scotia Limited, hereinafter referred to as 'the Company,' to point out some of its achievements and to admit of some of its failures. Finally, it is proposed to suggest some of the problems that confront the Nova Scotia apple industry in the future, and the necessity of a strong co-operative, if those problems are to be met.

"The company is a body corporate incorporated under the provisions of Chapter 22, Acts of Nova Scotia 1912, now

Part 2 of Chapter 70 R.S.N.S. 1923. Its shareholders consist of local co-operative companies situate in various parts of Hants, Kings and Annapolis counties. These co-operative companies are incorporated under the provisions of Chapter 33, Acts of Nova Scotia 1908, now Part 1 of Chapter 70 R.S.N.S. 1923. More than 1400 growers dispose of their apples through these various companies which, in turn, deliver them through the company. That means that approximately 58 per cent of all the apple growers in Nova Scotia are associated with the company.

"The legislation of 1908 and 1912 provided machinery for the control and administration of the central and local companies. Each local company annually elected three members who collectively constituted the annual or general meetings of the company. From these three were elected a director who collectively constituted the board of directors. Subsequent legislation permitted the creation of a small board of management chosen from the directorate. The powers of these various boards were controlled by the Act and by the by-laws authorized by the Act. In practice, the representatives met once a year, the directors three or four times a year, and the board of management met frequently, and actively supervised the affairs of the company.

"The organization was too cumbersome to give the local companies an active voice in the management of the company. By Chapter 80 of the Acts of 1944, an amendment was made reducing the representatives from three to one for each local company. These are termed governors and are elected annually by the members of each local co-operative. They meet more frequently and exercise more control, and have more responsibility than the three representatives formerly chosen. From

these, are selected a board of directors of nine members which meets about once a month. There is now no board of management. Thus control of the company is exercised by all the growers who are associated with it.

"Under the former legislation, only companies incorporated under the 1908 legislation or The Nova Scotia Companies Act could be members of the company; now, any person may become a shareholder with the approval of the directors.

"Under the former legislation, each shareholder exercised the stock company privileges of casting one vote for each share held. Under the 1944 legislation, each shareholder has only one vote, regardless of the number of shares held by it.

The first apples exported from the Annapolis Valley are said to have been shipped by sailing vessel from Halifax to Liverpool in 1849. The annual average exports from 1880-1884 amounted to 30,320 barrels. By 1900, the annual exports exceeded a quarter of a million barrels, and in 1911, a record crop over 1,700,000 barrels was grown. Few subsequent years have exceeded that figure. The crop for 1943 was slightly more than 1,600,000 barrels. In other words, the period from 1890-1910 witnessed a tremendous expansion, and thereafter, there was a levelling off of production.

"The first attempt at cooperation among the growers became evident in 1905 when The Annapolis Valley Apple Shipping Association was formed. It grew out of the general discontent prevailing throughout the Valley, due to the opinion of the growers that they were not obtaining full value for their apples. Some of the principal causes for organization were:

"1. In order to secure lower freight rates. The growers were paying 90-95 cents per barrel of 160 lbs. freight to the English market; while Canadian millers were only paying

36 cents per barrel of 212 lbs. from Montreal to the same market.

"2. Elimination of much of the commission to speculators, railway and steamship officials, fruit brokers, and of such expenses as extra wharfage.

"3. Accurate knowledge of market and crop conditions.

"4. Uniformity in packing.

"However, the organization was inefficient and theoretical. No capital was raised and very little was done by this organization to improve the conditions.

"As a result of action taken at the 1908 annual meeting of the Nova Scotia Fruit Growers' Association, the first co-operative act was placed on the statutes of the Province of Nova Scotia. This was Chapter 33, Acts of 1908, already referred to, and was entitled 'An Act to facilitate the incorporation of Farmers' Fruit, Produce and Warehouse Associations.' This Act provided for the organization of joint stock companies. This provision was due to two reasons: first, it was making available to fruit growers the provisions of the Nova Scotia Companies Act without the payment of fees; second, growers required capital in the organization of local co-operatives in order to purchase or build a warehouse for the handling of the fruit. It may also be said that those who had to do with the drafting of the Act knew of no alternative. Most of the local co-operative companies organized in the fruit district have been organized under the provisions of this Act.

"Originally, it was intended that these companies should act as separate and independent entities. Soon it was found that due to the inherent problems of the fruit industry, to which reference will be made again, some central organization

was necessary. Representatives of various local companies met together, and as a result, the Nova Scotia government enacted Chapter 22 of the Acts of 1912, now Part 2 of Chapter 70 R.S.N.S. 1923. This Act was entitled 'An Act to Further Facilitate the Incorporation of Farmers' Fruit, Produce and Warehouse Associations.'

"Immediately after the legislation was enacted, The United Fruit Companies of Nova Scotia Limited was incorporated the only company to be incorporated under Chapter 22, 1912, or under Part 2 of Chapter 70 R.S.N.S. 1923.

"Twenty-four companies, incorporated under the 1908 legislation, originally formed the United Fruit Company. The first annual meeting was held on July 2nd, 1923, at which there were thirty-one shareholder companies represented. In all, over fifty companies have been incorporated under the 1908 legislation, the great majority of them having been created before the first world war. Some of these failed up and disappeared. Some merged with others. To-day, there are 39 local companies which are shareholders of the company of which number 37 use the facilities of the company for delivery of apples and purchase of supplies.

"Originally all the apples of the patrons of local companies were disposed of through the company and the proceeds 'pooled' on the basis of grade and variety. This provided a fruitful field for dissatisfaction. To the difficulties inherent in maintaining a uniform grade from all companies was added the active opposition of those private dealers who continually attempted to sabotage the company. Finally, the one central pool was abandoned, each local company thereafter operating its own local pool. Several of the shareholder

companies withdrew their apples entirely from the company and operated their own selling agency.

"With the outbreak of the second world war, a central pool for all apples, whether co-operatively owned, or otherwise, was created by order in council under the War Measures Act. The advantage of this central pool have now been made apparent to all growers. With one or two exceptions, all the companies which left the company because of dissatisfaction with the original pool, are once more delivering their apples to the Government Board through the company. Several independent co-operatives have, for the first time, become members of the company. All have expressed the view that if the Government Board should be discontinued because of the lapse of legislation, their apples will continue to flow through one pool to be operated by the company.

"The primary purpose of the company has been the marketing of the apples of the producers. Incidental to this has been the distribution of fertilizer and spraying materials, and to meet the demands of the members, a substantial business in mill feeds has also been developed.

"The company has attempted to develop and service the market, to get the best price obtainable, and to return to the growers all that price after deducting expenses. No patronage dividends as such have ever been paid or retained. During the season, 'advances' were made to the various members. When the season was completed, the balance of the moneys received from apples were distributed to the members. But the expenses of the company, of course, had to be met. To a large extent, this was done by making an assessment of several cents on each barrel of apples marketed through the company. To the extent that this assessment could be reduced, the

grower correspondingly gained. Accordingly, profits made off the supply business as well as from the by-product plants were credited to expense, thereby reducing the amount of the assessment."

We are quite frank in admitting there that these moneys were not paid out as perhaps they should have been, in proportion to the purchases, but on a rough balance. The people who bought their supplies were also putting their apples through, and as the expense of handling the apples was reduced it acted on the general average, at any rate, as a rebate dividend to them.

"Notwithstanding the suggestions contained in the memorandum of the Halifax Board of Trade, the financial statements --"

--you have those for the last ten years, I believe --

"-- show that the company has been financially involved for many years. In fact, if it had not been for the loyalty of a few directors who personally guaranteed the bank loans, the company would have been forced into liquidation. So, in addition to the usual expenses of marketing, there was added a heavy interest burden, and the necessity of sometime liquidating the liabilities. It is interesting to note that the local companies which recently resumed association with the company voluntarily made assessments upon themselves in order to reduce the indebtedness of the company.

"The simple fact is, at all times, the operations of the company, and of most of the locals, have suffered from lack of capital. A few years ago, this was recognized by the Nova Scotia government and a mortgage corporation was created by the government to loan government moneys to these co-operatives."

companies. At the present time, the great majority of the locals have mortgages upon their warehouses from this source. The last balance sheet of the company shows a mortgage to the government company of \$48,074 with the capital of the company impaired by approximately \$21,290.

"The problems that prompted the formation of the first co-operative were mentioned on page 3 of this submission. The loyal support given the company by a large number of growers, through thirty years of revolutionary change and abnormal financial problems, proves that the company substantially met these problems.

"Right up to the outbreak of this war, the company led in the fight for reduced freight rates. In this, it was supported by other interests engaged in the export of apples. But these other interests consisted of buyers and brokers to whom the returns to the producer were only of secondary importance. Sometimes indeed these other interests profited by the freight rate. It was the company that generally led the attack and when negotiations failed, chartered ships of its own to break the rates imposed by the North Atlantic combine. As a result, rates were reduced from three dollars to fifty-four cents a barrel, a saving of hundreds of thousands of dollars, that incidentally assisted all producers whether or not associated with the company.

"The cost of fertilizers and insecticides has also been materially reduced to the producer. The company imported in large quantities, often chartering ships for this purpose. As a result, those producers who were free to buy from the local companies effected a substantial saving. Detailed figures are not available, but it can be stated that the selling

price of fertilizer in a district served by a local cooperative has been from two or four dollars a ton less than the price charged in a similar district where there was no cooperative distributing fertilizer.

"A similar saving has been made in the purchase of insecticides.

"Undoubtedly the most important achievement of the company has been in the marketing field. But as will be pointed out, the efforts of the company to accomplish the orderly distribution of the apple crop were largely frustrated. But the impact of war, with the resultant application of the War Measures Act to the apple industry, temporarily achieved that which the company had long sought. Orderly marketing is now enjoyed by all growers, and the results, not only justify the past efforts of the company, but warrant its determination to maintain such a system after the lapse of the existing emergency legislation.

"From the outset, the company insisted on higher standards of quality and a uniform pack."

The company was the first to institute an inspection service. We hired our own inspectors at that time, though that is now done largely by the government.

"Inspectors were employed by the company for that purpose. In this, the company led the way against the protests of those who saw no reason why improvement was necessary. Gradually, the policy pioneered by the company was accepted by all, at least in letter, if not in spirit. Finally, the regulations of the company became the law of the land, and to-day, one hundred per cent inspection, and a large number of inspectors are maintained as part of government policy.

"Prior to the war, distribution of Nova Scotia apples was effected through three principal channels -- the company; exporters, who are known to Nova Scotia fruit growers as speculators; and English brokers who had representatives here and often advanced moneys to growers thereby assuring control of the distribution of their crops.

"The company was the only one of these groups which was primarily interested in the return to the producer. The others sought their profits from various sources including commissions, drawbacks and profits on supplies. As to this, see the report of the Royal Commission which investigated the Nova Scotia Fruit Industry in 1930. At page 22, the report says:

'A very considerable number of the producers purchase their supplies through dealers in the Valley, the method being to secure from the dealer or "speculator", as he is known in the Valley, their supplies in the spring, and when necessary secure advances for labour charges. In turn, they agree to sell their crops to the speculator at the general market price being paid in the district, to be fixed at a certain date in the future. This, to a very large extent, places the farmer in the hands of the speculator with regard to the price he is to receive for his product. In some instances, the farmer is given his choice of selling at a fixed price or consigning to a commission firm in London through the person who has the lien upon his property. In either case the transaction is likely to be favourable to the dealer. If he buys he is probably in a position to dictate the price, and if shipment is made on consignment his profit is assured under the system of rebates which will be dealt with in another place.'

"and also -

'When the broker is selling these apples, if he secures a price which will return him all that he has invested, he has little incentive to work for a higher price, so that the grower may be in the position of simply growing his apples to defray transportation and broker's expenses.'

"Under those circumstances, it might be expected that the great bulk of the crop would be handled by the company, but this was not the case. At the outbreak of the war, only about 26 per cent of the apples went through the central office. Approximately another 14 per cent was handled by independent co-operatives who have since returned to the company, and the balance was handled by 'interests outside of the co-operatives.'

"The explanation lies in the financial position of the company as well as of the local companies to which reference has already been made. Many growers became financially involved after the last war. The co-operatives assisted many, but others had to turn to the ready cash of the speculators and brokers. In many cases, these growers lost the title to their farms and became tenant farmers for the interest which had financed them. On the other hand, the co-operatives, except on rare occasions, carried their growers along, until, in the end, they were enabled to get back on their feet.

"This conflicting interest prevented any unified distribution of the Nova Scotia crop. Apples were usually shipped to four British ports -- London, Liverpool, Glasgow and Manchester. Time and again, various cargoes would arrive simultaneously at one port, say, London, with a consequent glut, while a shortage would exist at another port, say, Glasgow. Two weeks later, the Glasgow port would be flooded

with apples, and the London port would be left severely alone.

"Against these conditions, the company staged a tremendous and strenuous fight.

"Arrangements were made with English brokers whereby charges were reduced and a larger proportion of each dollar found its way back to the pocket of the producer.

"But, in the matter of distribution, little real progress could be made. For many years, the company had its representative, Mr. F. W. Bishop, on the English market. In his report of 1926, he pointed out the evils of the existing situation and the necessity of having one organization handle the distribution of the entire crop. Each year thereafter, efforts were made to that end. Informal, and sometimes formal, agreements were made by the various interests in order to obtain stability of marketing, but these agreements were shortlived because some person found it more profitable to dispose of apples through a certain source, regardless of the dislocation to the market and the resulting loss to the producer.

"With the outbreak of the present war, all this was changed through the inauguration of compulsory central marketing. The orderly marketing which has resulted, together with the abolition of all secret drawbacks, charges and commissions, has justified the cause which the company espoused for so many years. Certainly, the old system, or lack of system, will never return if the producers can prevent it.

"It is undoubtedly this matter of central marketing which prompted the sponsor or sponsors of the supplementary brief of the Halifax Board of Trade to underline the following statement:

'with the hopes of its directors for dictatorial control over

both members and those who prefer to operate independently, utilizing their favorable tax position to attain their end.'

"In this connection, it should be pointed out that although the company has, for twenty years, supported the cause of central marketing, now, that the Valley has enjoyed its benefits, the principle is also supported by the Nova Scotia Fruit Growers Association. This is the organization which includes all growers whether associated with co-operatives or otherwise. It was this organization which last year conducted a plebiscite as to the desirability of continuing such a system after the war. About 74 per cent of the ballots were returned and of these 81 per cent voted 'yes.'"

That was all the growers themselves, whether they were associated with this company or otherwise.

"If this is a dictatorship, what does one call the system obviously desired by the sponsors of that memorandum whereby a few individuals would control the processing plants essential to the orderly marketing of the crop of all the producers. Actually over 50 per cent of the processing facilities of the Valley is under the direct control of one operator whose primary interest is not that of the producer. He may accept or reject apples as he sees fit. At this date, because of a labour dispute his plants are not operating at capacity and as a result thousands of barrels of apples are deteriorating and because of the lateness of the season may become an absolute loss to the producer."

I stress through this, and perhaps in the evidence, the importance to us of processing. I believe the evidence would suggest that it is an essential step in the marketing of our products, because of the peculiar conditions which confront us.

"The foregoing review might suggest that although the company has had a long and interesting career, its interest in income tax is purely academic. In so far as the past is concerned, this is largely true. But a study of the balance sheets will show that, throughout the years, the company has derived some income from its supply business and from its processing plants. Although relatively this income was small in amount, yet, it has been of material assistance. If this income had been liable to income tax, the company would have had much greater difficulty in carrying on; certainly, it could not have improved its financial position and again re-established itself, as a potent force in the fruit industry.

"In so far as the future is concerned, the company has a very direct interest in the inquiry conducted by this Commission.

"It is trite to say that conditions after the war will be far different from those prevailing before the war. In so far as the Nova Scotia apple industry is concerned, this will be all too true. Over 80 per cent of the pre-war crop was exported to British markets. Only a fraction of this can be exported to Britain for at least some years after the war. At least, the statements of British leaders respecting the restrictions on exchange would indicate this. The fruit that is exported to Britain will have to be of a higher standard than heretofore. The only other market immediately available will be the Canadian market, which heretofore has been largely supplied by the apples of British Columbia, Ontario and, to a lesser extent, by Quebec. We hope the population of Canada will attain the 50,000,000 that is sometimes prophesied, but, for the immediate future, the market possibilities can be

fairly accurately gauged. Probably in a normal year, the Canadian market available to us cannot profitably absorb more than 35 per cent of our crop, and that largely of a high grade, dessert variety type."

That is probably an optimistic estimate.

"What is to be done with the remainder? Obviously a large proportion must be processed. If not, market conditions will be absolutely chaotic. In other words, processing must be one step in the orderly marketing of the Nova Scotia apple crop."

Our position there is different from that of other interests, perhaps, or other fruit interests, because of the export market which is lost to us.

"It is noted that some who have appeared before this Commission have stated that they had no objection to a 'true co-operative' enjoying tax exemption. When pressed for a clarification, it was at least inferred that a 'true co-operative' was one that marketed its products only in the primary stage."

That, you will remember, was the suggestion made by Mr. Smith, that a true co-operative was one that processed the products of its members in the primary stage.

"This contention is equivalent to bonusing a producer for using a wheelbarrow while penalizing him for using a truck.

"If processing is one stage in the orderly marketing of the apple crop, then this processing should be done by the producer co-operative. Otherwise, the marketing of the bulk of the crop will be controlled by those whose primary interest is the earning of profits as processors. Under such a system, return to the producer is of secondary importance, and is a matter over which he can exercise but little control. It is

not for one moment urged that the co-operative should control all of the processing facilities, but it should own enough plants to ensure that non-producer interests are not able to dictate the price paid the producer for his product.

"One example may be given. No return was made to the producer by the processors for 'Skins and Cores' previous to the war. The Apple Marketing Board established a price of \$1.25 per barrel. The growers last year received \$260,567 from this source alone. It is true that this price was in part due to an inflated wartime economy, but it is also true that the processors, other than the company, objected most strenuously to this procedure. Remove the Apple Marketing Board through the lapse of the War Measures Act, and allow the processing plants to be monopolized by manufacturers as distinguished from producers, and the price will again go back to a very low level.

"It is therefore submitted that a producer co-operative should be permitted to process the products of its members and that the moneys received from such processing should be treated as an installment of the sales price of the product of the member, and exempt from payment of income tax. At the present time, there is a departmental ruling which deals with this matter."

I presume this is familiar to you gentlemen. I have not a copy of it here, but there is a definite ruling on this matter, which is in existence.

MR. PARKER: Perhaps you might explain what that means. Where is that departmental ruling?

MR. NOWLAN: It is a ruling of the Department of National Revenue, issued some time ago, and I think it is available and

included in their printed documents. I have forgotten the exact wording, but it states that processing which is an ancillary step in the marketing of primary products, and as a result of which the manufactured product does not contain a substantial proportion of foreign matter, is to be considered as the marketing of the primary product. I am not sure whether that was issued elsewhere, but it was issued to Nova Scotia. I know the Income Tax Department there have it; it was applied particularly to the processing of apples, and it was done by the Minister of National Revenue some few years ago.

"This matter, however, is too important to be dealt with by a ruling which might be changed overnight. It should be set forth in appropriate legislation as a matter of government policy.

"But the erection of processing plants is an expensive undertaking and the growers as a group have not the money with which to finance such an undertaking."

We are the poor Cinderella as compared to the other end of the fruit industry, which was heard yesterday.

"The grower needs to receive in cash all of the moneys which his crop would ordinarily bring. However, he would be willing to leave with the co-operative for a time, part or all of the moneys which the co-operative could earn through the operation of by-product plants. If the company were certain that it could keep such moneys of the grower, without having to pay income tax thereon, it could finance the construction of such by-product plants and thereby achieve orderly marketing and, ultimately, the return of these moneys to the grower. Therefore, the legislation to be effective, must not only permit of processing as a necessary function of the true co-operative, but it must also permit the co-operative, with

the consent of its members, to retain moneys due those members, and to use such moneys in expanding the facilities of the co-operative, without liability to pay income tax on moneys so withheld.

"Some reference perhaps should be made to the contention raised in the Halifax Board of Trade memorandum. This suggests that the company controls approximately 30 per cent of the processing facilities, but, after the war, these will be the only ones required, and therefore, the other 70 per cent will be forced out of business. The fallacy of this argument can best be demonstrated by this fact. Only one additional fruit processing plant has been constructed since the war. All were busy during the processing seasons before the war. If conditions then required the employment of 100 per cent capacity, what possible argument can suggest that only 30 per cent will be required in the postwar years? Every indication is that there must be an expansion of processing facilities."

I might say this brief was forwarded to the Halifax Board of Trade some weeks ago, and it has been available to them since then.

"The memorandum indicates clearly that it is written from the point of view of a processor or processors who is or are opposed to the company extending its operations. It is suggested that this lends weight to the argument submitted herein that the company, in the interest of the producer member, should control its processing facilities.

"What has been said about processing plants applies with equal force to cold storage plants. These are essential to the orderly marketing of the crop particularly of the dessert varieties. To-day, there is not a modern cold storage plant

in the Valley, a situation which applies in no other apple producing district on this continent. Last year, the growers associated with the company gave over \$50,000 to it as a cold storage fund."

That is the nucleus for the erection of such a plant.

"These were moneys which the grower received as his share of the increased price for 'skins and cores' mentioned on page 18 hereof. This fact supports the contention already made that although the grower needs to receive in cash the ordinary price for his product, yet, he is prepared to leave with the company for the time being additional moneys such as would be received from processing. Other cold storage plants are essential to the orderly marketing of the Valley crop and must be in the control of the producers. Such undertakings can only be financed when it is certain that the producer can share in the earnings to be derived therefrom. When this is established by law, the producer would then leave with the company a proportion of those moneys with which the company could pay for such facilities.

"The principal problem that confronts the Nova Scotia apple industry is that of proper distribution and marketing. The solution depends on three factors:

- "(a) British and ultimately other European markets;
- "(b) Canadian market;
- "(c) Processing.

"It has already been suggested that (b) and (c) can only be economically achieved for the producer, if he is permitted to acquire or construct sufficient processing and storage facilities, and if the operation of such facilities is recognized as a necessary step in the marketing of his product. The only practical way in which this can be done is to

temporarily permit the producer's co-operative to use his money for those purposes. When this is accomplished, it will permit the producer, through the company, to get a fair price from those two sources. But that is not all.

"As already pointed out, its members produced approximately 50 per cent of this year's apple crop. If the company is thus enabled to pay a fair return to its producers, it will be able to maintain and within reasonable limits increase its membership. Not much increase would be necessary before the company would be able to exercise a very effective influence upon the proper distribution of the crop on the English or European markets. It is to be hoped that the war-time marketing controls will be enacted into legislation. If this is not done, the old chaotic conditions of overseas distribution will return unless the company is in a strong enough position to exercise substantial control over those markets. But if the company is permitted to perform those functions already suggested, then it can attain such strength and can sufficiently control the distribution in external markets.

"Thus a satisfactory solution of the income tax problem assists materially the solution of the whole problem of distribution in all its phases.

"It is, therefore, submitted that the principle of exemption from income tax should be maintained, that processing by producer co-operatives should be recognized as one phase of marketing, and that moneys due members could be used with the consent of the members for the purpose of developing such facilities.

"If this is done, the fruit growers of Nova Scotia will enjoy a decent standard of living despite the vicissitudes and

problems of the post-war world. If this is not done, their future will be bleak indeed.

"Those who have appeared before this Commission in opposition to the co-operatives have suggested that income tax exemptions are unjust and that the co-operatives should carry their share of the taxation burden. This is an argument that requires the most careful consideration. Certainly concessions should not be made unless they can be justified. It has already been suggested to this Commission that the social benefits resulting from co-operatives warrant special consideration. This company further believes that tax exemptions can be justified as a fiscal measure, that thereby demands upon the national treasury will be lessened and ultimately opposing interests will pay less in taxation because of such exemptions.

"The hundreds of millions of dollars of tax free business to which reference is popularly made includes duplication of services as well as many services on which no profit or surplus is or can be earned. On many other services, which today show a surplus, the co-operatives could so conduct their affairs that little, if any, earnings would result. It is, therefore, apparent that if co-operatives were taxed, the resultant increase to the national treasury would not be nearly as large as has been suggested. In other words, the tax burden of business would not thereby be relieved to any appreciable extent.

"What causes the tremendous tax burden now imposed? After expenditures for war, so-called social legislation is demanding more and more from the national treasury. Now, we have 'floor prices' for fish, 'floor prices for agriculture' and many other similar projects. Once admitted as government policy, these legislative enactments are likely to be further

and further extended. The drain upon the treasury will be enormous. Briefly it is submitted that as agriculture, fishing and other primary industries are permitted to organize their own affairs and particularly, matters of distribution and marketing, the necessity for such legislation will disappear. These industries can and will operate without government assistance when properly organized. But to accomplish this end, relief from income tax is necessary.

"It is submitted that these concessions in the end will cost the treasury far less than will be the case, if these industries are compelled to carry on in a depressed state, and eke out an existence by the grace of federal bounty, largely extracted from the taxpayers of the nation.

"The foregoing has been presented solely from the viewpoint of the company as a producer co-operative. It also has an important function as a distributor of supplies. For reasons which have been ably set forth in other briefs, the company would urge that moneys derived from this type of business are the property of its members whose purchases have resulted in the surplus, and that, therefore, these moneys are not liable to income tax in the hands of the company. The company would also suggest that there is no derogation from this principle, if the members permit the company to use these moneys for the time being in the interest of the members.

"Filed herewith are the balance sheets of the company for the past ten years.

"All of which is respectfully submitted after having been approved by the board of directors."

That, Mr. Chairman, concludes the reading of the brief. I have Mr. Bishop here as a witness, if you would like him called now.

THE CHAIRMAN: Very well.

F. W. BISHOP,

Director, United Fruit
Companies of Nova Scotia
Limited,
having been duly sworn
testified as follows:

BY MR. NOWLAN:

Q. Mr. Bishop, you live in Paradise, Nova Scotia?

A. Yes, sir.

Q. Incidentally, you celebrated your seventy-ninth birthday yesterday, in anticipation of being called as a witness? A. Yes.

Q. You are in the business of fruit growing? A. Yes, sir.

Q. Perhaps before we deal with that I should refer to this brief. You are a director of the United Fruit Companies of Nova Scotia? A. Yes, sir.

Q. And do you know of your own knowledge that this brief was submitted to the directors? A. It was submitted to a full board of directors and gone over very carefully.

Q. And was approved unanimously by the board? A. There might be some little fact, or some little thing in it in which they might not concur, but everything was submitted as O.K.

Q. It was approved? A. Yes.

Q. And you were authorized by the board to come here and give evidence in support of this brief? A. Yes, sir.

Q. What has been your connection with the fruit industry? A. According to my age it has been quite a connection. I may say I was born on a fruit farm, the farm that my grandfather owned. When he settled he put out quite a

large orchard for that time, five or six acres of land. When I was a young lad those trees were about sixty or eighty or a hundred years old. I am still living on the same farm, still have title to it.

Naturally I grew up in the atmosphere of apples and know the problems of the apple growers. As early as perhaps 1895, shortly after I had married, -- by the way, my grandfather afterwards marketed his own apples. At that time, when I was a young man -- that is, he marketed them by sending them to Saint John, the bulk of them, or shipped them to consignees in Great Britain.

At that time, about 1895, I took charge of the parcel business of an apple dealer or speculator who was operating or servicing the growers of quite a large vicinity around there; and in the vicinity of Paradise, where I live, I engaged with him to look after his apple business there, which consisted of storing apples from the surrounding country; and the Clarence district of Nova Scotia was quite a large apple producing district. They were brought to Paradise, on account of the railway being there, and were stored in the cellars of the various dwelling houses, and any frost-proof storage we could get. They were packed by the growers in those days --

Q. Will you just confine yourself to your own connection with it, please, without giving us the background of the industry? A. Later on, say in about eight or ten years, this man was pretty well through on account of his age, and his warehouse came for sale, and I associated or interested a few growers with me and we purchased this warehouse. In the meantime, in the declining days of his business, I had been shipping some apples myself for the growers in the vicinity to English brokers and enjoyed a part of the return commission,

which was in the expense accounts returned by the brokers for the transactions. I associated with these men in purchasing this warehouse.

Q. That was the start of the co-operative? A. Yes. This was about 1907. In the next year a number of the other growers in our village wished to join in, and we organized a company, the Paradise Fruit Company. At that time some companies were being organized throughout the valley. Three companies that I recall had been organized; the Port Williams Fruit Company, the Berwick Fruit Company and the Aylesford Fruit Company.

Q. Ultimately these companies were organized into the United, in 1912? A. Yes. Before that --

Q. They were organized in 1912? A. Yes.

Q. Then in 1912 you were one of the first directors to be elected to the United Fruit Companies? A. I was. If you do not mind, I think perhaps I could build this up just as well, if you have time to listen to it. These companies were originally amalgamated with others into the United Fruit Companies. I was one of the five chosen at a mass meeting of the fruit growers to frame a constitution and by-laws to bring the company into operation. The other three men were the three managers of the companies; John Donaldson, John N. Chute, and A.E. McMahon, who became our manager; and also Malcolm Davis, who is now manager of the Experimental Farm at Ottawa. I have always been connected with it.

Q. Since that time you have been on the board of directors of the United Fruit Companies consistently, until the present time? A. I have been on the management.

Q. And you were president for how many years? A. Vice-president for the first five years; president for twenty years,

and for the latter part of that I was also European marketing representative, and I continued to be a member of the board of management or the board of directors, as it is now called, since that time.

Q. The apples in the valley are brought to the local warehouses or the local fruit companies, and they in turn pack them and look after the shipping of them, and the central company acts as a marketing agency for those apples? A. Yes.

Q. That has been the practice? A. Yes.

Q. And the central company has charged a certain fee per barrel to cover its expenses in handling these apples; I think 5 cents a barrel was the fee, was it not? A. The fee varies according to the season, to some extent, and according to the expenses; but it has never been the policy or the wish of the growers to leave a large surplus in the hands of the management.

Q. And all the money which the company has received for its apples has been refunded to the different companies? A. Yes. You say all the moneys have been refunded. Some of it had to be used up in looking after bad debts and matters of that kind.

Q. Those are taken care of by charges, by levies of so much per barrel, were they not? A. You could not tell what they were going to be. They might be taken care of from your reserves which were established, and the reserves were eaten up in that way.

Q. The brief refers to what has been accomplished with respect to freight rates, and the statements set forth there are correct with respect to what the company did in reducing freight rates in the valley? A. The statement gives a very

short picture of it. Its effect, in principle, is that they were instrumental in bringing about sometimes decreases in the freight rate, that is to the Old Country, to Britain.

Q. That is the rail and water rate? A. Yes.

Q. And on many occasions I think you arranged for the chartering of ships, to get a lower rate on the North Atlantic?

A. One particular time we adopted a system during the season of chartering our boats, to break the rate which the North Atlantic freight combine had allowed companies to charge.

Q. And also in regard to the prices of fertilizers and insecticides. These have been materially reduced in the valley? A. No one ever questions that there was a very material reduction made in the prices of fertilizers and insecticides.

Q. What about the system of marketing? The brief refers to the three types; the company, the speculator and the broker. Is that correct? A. How is that?

Q. The three principal ones were this company, and the speculators and English brokers? A. Those were the three types. That would include them all.

Q. What was accomplished in so far as the English market was concerned, by this company in its marketing problems?

A. That is a very large question. I will tell you some of the things. The custom at that time was for advances to be made to growers for growing their crops. The growing of a crop like apples involves a large expenditure of money in advance, and our growers, few of them had money ahead; in fact the greater part of the early operations of our company were carried on during a time when the grower was living on his next year's income. It was already spent, and he had to have money. The speculator was the man, or the representative

of the English importing house was the man, who stood ready to supply that money. Thus they got control of the marketing of apples. That was the common practice, that the speculator or the dealer or the agent of the broker on the other side would advance money to the grower to buy the fertilizer and supplies that were necessary, and thereby get possession of the handling of the apples.

The trouble with these questions is that they are so large I just do not know what part of them to speak about, to tell you the truth. I know these gentlemen do not want to hear all our troubles.

Q. What did the company do in respect to these matters, or did it do anything? A. We used our credit to quite an extent. In the structure of our company there is very little money paid by the growers into the organization of the United Fruit Companies. As it has been said, they had not the money to pay for the handling of this volume of apples; but the operations we carried on gave us a credit with the banks. The money used in building our warehouses and helping to finance our growers was the money we obtained from the banks on the credit that we were reputable men and had a large volume of apples back of us with which to meet our obligations. So we undertook to help that situation, to some extent, by getting money from the banks and advancing it to our growers. We still followed the policy, though, of depending somewhat upon the English broker, who was going to handle our apples in the end, for financial assistance. The only difference was that we handled that financial assistance ourselves as a company, rather than having it a matter of individual transaction.

Q. What happened the individual farmers? What about tenant farmers, in so far as our own members were concerned?

A. "Tenant farmer" is a term we never heard of, perhaps previous to 1925.

Q. Did the company have to take over any farms of its members and operate them, through the valley, as compared with those in the hands of the private dealers? A. I think you are getting a little ahead of what might build up to this. We did take over a few, but very few. I might say that many growers among those supplied by the speculators or dealers found themselves in this position. These dealers became wealthy men, and became large handlers of fruit, as farm after farm of people they were working with fell into their possession through the people on the farms getting so far behind that eventually they had to hand over the management to the speculator or dealer, who operated the farm for them, in most cases allowing them to stay on the farm and get a living off it.

Q. But in so far as those associated companies were concerned, that did not happen? A. That very seldom happened. In fact I do not know of any cases, except cases like this --

Q. They were very few, at all events? A. Yes. Sometimes a man who was not accustomed to farming, perhaps a man from another country, came into the valley, and we logically advanced him supplies. Not understanding how to grow apples, he did not grow them, and did not have the money to pay us back. But we never took over his farm. We took up the loan, but eventually he had to leave his farm.

Q. This brief refers to the processing situation in the valley, and says that over 50 per cent of the processing

plants are controlled by individuals or organizations not associated with the producer. Is that correct? A. Yes. I might even go further than that.

Q. That is correct? A. Yes. One processor owned half of the processing interests in the valley, as far as that goes.

Q. One individual? A. Yes.

Q. And what is the attitude of the processor, as far as the price of the product is concerned? Have you been on the apple marketing board, and do you know the situation there?

MR. PARKER: I cannot just see what the attitude of an individual processor towards the marketing board would have to do with taxation. I do not wish to interrupt the examination.

THE CHAIRMAN: I think Mr. Nowlan is trying to cover the facts set out in his brief. I believe that is his purpose.

BY MR. NOWLAN:

Q. My suggestion is that it is necessary for the producer to control the processing facilities, or at least have some control over them; and what I was going to ask you, Mr. Bishop, was the attitude of the present processors towards the producers in fixing the price for the processed article?

A. I do not know that this is a question I should be particularly prepared to answer, except perhaps as an observer. I can answer as to the attitude of our own organization toward the processing, and why we had to go into it; but I cannot very well tell what is the other man's attitude.

Q. The apple marketing board sets a processing fee today, does it not? A. Yes.

Q. Do you know of your own knowledge the attitude that

the processors have taken toward the board in trying to get those processing fees raised; that is, the processors other than this company? A. Although I am not on the marketing board there I have been very closely associated with those who are, and I have been an employee of the board. I know of the troubles in fixing those fees. That is, the processor naturally wants to get all he can for his work, and it has been a case of the private interests wanting more than the board was willing to give, rather than anything concerning the co-operative processing plants.

Q. The brief suggests, and it is true, is it not, that the markets for our apples will be the European market plus the Canadian market; that is, for fresh fruit? A. That is all it ever has been.

Q. And what is the prospect of the English market being reduced? A. We consider that the buying power of the English market is very much reduced, and expect that probably the buying will be handled by the government and they will control the quantities bought and so on, for some time to come.

Q. Over 80 per cent of the Nova Scotia apples used to go to the English market before the war? A. Yes.

Q. And that percentage will be very materially reduced in the future? A. Yes, to probably 35 per cent, or perhaps a little more. That is the supposition.

Q. That means a tremendous quantity will have to be processed? A. It also means that they will only want the best quality apples. It also means that whereas in the past years processing has meant taking the culls and the cheap apples, for which we got very little, in future these low

grade apples, of which we grow a larger percentage than the average producing country, also will have to be marketed in some form, and we cannot see any other form but that they will have to be processed.

THE CHAIRMAN: I think we will adjourn now until 2.15.

---The Commission adjourned to meet again at 2.15 p.m.

Ottawa, Wednesday, April 11, 1945.

The Commission resumed at 2.15 p.m.

Examination of F. W. Bishop, continued:

BY MR. NOWLAN:

Q. Mr. Bishop, when we adjourned at 12.30 we were discussing this matter of processing. I should like to ask you what type of apple the Nova Scotia producer specializes in? A. In the past we have specialized mainly in what we call the culinary type as distinguished from the dessert type.

Q. As I understand there are two distinct markets, the culinary market and the dessert market; is that correct? A. That is correct; that is particularly in the English market.

Q. And the criticism we sometimes hear about the Nova Scotia apple is a criticism of it as a dessert type and not as a culinary type? A. Largely because it is the dessert apple you see in restaurants, store windows, and the trade rather than the culinary.

Q. And climatic conditions are such that you cannot get the colour as satisfactorily?

MR. PARKER: I do not know whether that is so or not.

BY MR. NOWLAN:

Q. Is that so?

THE CHAIRMAN: Are you raising any objection, Mr. Parker?

MR. PARKER: I am making objection to any reflection on the local product.

MR. NOWLAN: I do not think Mr. Bishop considers it a reflection.

THE WITNESS: I do not consider it a reflection. Providence, or somebody, did not give us as much sun as

in some other places.

Q. The net result is you are producing an apple which is particularly saleable on the English market.

A. Yes. The culinary trade is perhaps a larger trade than the dessert trade. In the past we have been catering more to that but I might say in later years we are trying to get into more dessert types of apples. They are being more widely planted than they were.

Q. But that takes many years? A. Some time.

Q. At the present time we have an apple fitted for the English market, and the English market, to a greater or less extent, will be diminished after hostilities?

A. Yes. I might enlarge on that with a few words. Unfortunately, or perhaps fortunately -- I do not know that I should use that word "unfortunately" -- we have had years of Ben Davis, Starks and apples only used in the culinary trade. In later years we are adopting more of the newer varieties like Delicious and apples of that kind.

Q. With the loss of the English trade these apples will have to be processed substantially, will they?

A. The culinary trade does not pay quite as much money for apples as the dessert trade. It is the housewife trade and it is only when culinary apples are scarce that we get a price in comparison to what the dessert trade has been getting for their apples. Naturally in the processing trade the processing has been in those apples which would not bring sufficient money to be profitable, or were not needed in the general trade. They were processed in order to salvage what value could be got out of them for the grower.

BY THE CHAIRMAN:

Q. To what forms of processing are you referring?

A. I am referring to canning, evaporating, and I am also referring a little further to the products made from the juice.

BY MR. NOWLAN:

Q. What do you say with respect to processing being a necessary step in the orderly marketing of your products in the future? A. In the early days --

Q. I am talking about the future. A. In the future I think it is going to be very necessary.

Q. What about the capital to provide those processing facilities? A. We have got to dig it up.

Q. Have your growers the money available for that themselves? A. Perhaps I could answer that better by illustrating our processing situation in this way. After being in operation a few years we found there was a lot of our low grade apples and waste apples we could not get anything from. We started processing to salvage them for our growers. We used up what capital we had and more, too, in building this plant. We gave our growers as much as we possibly could for that product; we returned as much as we could. In those days you did not get a lot of money out of it. The result was we made no attempt to pay back that money. That is, we made no assessment for it but we felt we were serving the purpose that we started out to do by taking care of this product of our growers for which they were getting nothing before. So we felt, if the grower complained because this factory was not showing profits but was showing losses which amounted to a dollar or two or three dollars to each individual, we had to point out to him we had taken care of perhaps \$200 or \$300 worth of waste apples for him which otherwise would have gone to waste.

Q. That was a plant which was used primarily for taking care of waste apples, cull apples? A. It was for more than that. We canned apples, too. Some of the trade wanted apples in a different form and we canned apples.

Q. In the future you will be processing apples which otherwise you would sell on the fresh fruit market?

A. At the present time we are, and the indications are that it will be more that way in the future on account of transportation and other matters.

MR. NOWLAN: That is all.

BY MR. PARKER:

Q. Mr. Bishop, the fruit growing belt of Nova Scotia takes in three counties, the western part of Hants, the larger part of Kings, and a large part of Annapolis?

A. Practically so.

Q. Up until the time of the war the fruit growers depended largely on the English market for returns for their fruit? A. Largely.

Q. A certain amount of processing on a small scale has been done for some years prior to the war in the making of apple juice, canning and dehydration of fruit?

A. That is right.

Q. And for years the growers have been struggling -- I think that is not too strong a word -- to try to get their industry on some sort of regularized basis so they could get their fruit on the English market and get as much as possible for it? A. That is true.

Q. Various methods were employed to get that fruit on the market. As you say some of it was done by shipping to certain fruit dealers in London and other cities where the apples were received, put on the auction floors and sold with sometimes very fatal results to the shipper?

A. True.

Q. If the auctions were held on days of glut. At other times when they struck it lucky the return from the shipping agency might go as high as \$4, \$5 or \$6 a barrel on rare occasions? A. Yes.

Q. And all the way down to zero, and I believe it was lower than that in some cases, that is, minus?

A. Yes, red ink.

Q. So the history of the United Fruit Companies was an endeavour to overcome some of these difficulties? Is that a fair way to summarize it? A. Yes, that would be a fair way to put it.

Q. That being so I suppose you will agree with me that a considerable measure of success has been achieved in improving these conditions? A. I think there is no doubt about that.

Q. And do you suggest that those improvements have been brought about, to use the terminology we employ. . before this Commission, merely through the cooperative method of doing business, or would there be other factors which contributed to those improvements? A. I would not take all the credit certainly, but as I was only interested in the cooperative field perhaps I was watching that more. I feel very safe in saying they have been instrumental in improving methods.

Q. I have no doubt they have been instrumental in some improvements. I am only asking if there were not a great many other factors which contributed to that improvement? A. Yes.

Q. Such as a greater realization by the growers they must have a better pack and they must give more attention to the varieties? In other words, they had to cater to

the market rather than depending on the market deciding to buy what they saw fit to grow? Is that a fair way of putting it? A. Yes.

Q. Do you want to make any comment on that?

A. I was going to say the Fruit Growers Association is a body which has always been educating the people on that line.

Q. Exactly. That was the situation in a word when the war broke out, and in the meantime the United Fruit Companies having gathered under their control, so to speak, a number of these small cooperative societies? A. Yes.

Q. And the United Fruit Company today is a sort of federation, or rather it is an association whose members are local associations; is that right? A. That is right.

Q. All right, we will stop right there. Does it have individual growers as members or are its only members the smaller local societies? A. Up to 1944 it did not have individual members as growers but sometimes a large grower who had a sufficient volume of apples to make it attractive would form a cooperative company.

Q. He would be the sole owner of the company?

A. Yes, or among his family, because only five members were required.

Q. The point is the members of the United Fruit Company Limited are in turn cooperative associations themselves? A. They were until 1944. Now under our Act an individual can become a member.

Q. I am coming to that. I say up until that Act that was the situation? A. Yes.

Q. Up until that Act approximately how many companies made up the membership of your United Fruit Companies?

A. Probably from thirty-five to forty, sometimes forty-five.

Q. I suppose there was a variation as one went out, and so on? A. Yes.

Q. To become a member of your association do each of these local associations buy a certain number of shares in the United, or on what basis do they get in? A. They made application to join and showed their capital stock and their subscribed membership. They come in by a rule we have that they must take stock in our central company to the extent of 20 per cent of their own capital stock.

Q. That is what I am getting at. To become a member of the United the local has to subscribe for a certain amount of shares in the United? A. Shares equal to 20 per cent of their capital stock.

Q. And the amount they have to subscribe for to be admitted depends upon what? A. Upon the capitalization of their own local company.

Q. Worked out on some sort of basis? A. Twenty per cent.

Q. All right, let us get that and then stop. With the result that in 1944 when you made provision for individuals to come in how many shares were outstanding in the United Company? What capital did you have? Do you know approximately? A. Our subscribed capital was about \$60,000.

Q. Is that all you ever had? A. That is all we ever had.

Q. And there is that much paid up capital today? A. Not paid up.

Q. How much of it is paid up? A. I think it is

a little over \$40,000.

Q. And the difference between the \$40,000 and the \$60,000 is subscribed for but unpaid? A. I think about 20 per cent of our available capital has been called in.

Q. I am not so much concerned about that. My point is you have anywhere from \$40,000 to \$50,000 of paid up share capital? A. We did have.

Q. How much have you now in 1944 in round figures? A. Perhaps I should not say that because we have probably lost it more than once in bad debts.

Q. You may have lost it in that sense but the point is shares have been issued and paid for to that extent? You may have made money with it and you may have lost it but I am not interested in that. A. They are a company liability.

Q. That is one source from which this company obtained funds to carry on its operations through the years? A. Yes.

Q. Have they accumulated working capital by a system of holdbacks from the sales of their members' fruit? A. Unfortunately they have not.

Q. They have never done that? A. No. They have set aside some for reserve but they have never held anything back for working capital.

Q. What do you do with the reserve? A. There is a bad debt reserve, and one is a general reserve, bad debt reserves.

Q. You need not go into that. I think we all understand what a bad debt reserve is and we understand what a depreciation reserve is. You have done that? A. Yes.

Q. Now, as to your general reserve; have you set

aside something additional which you held from them, whatever use you saw fit to make of it? Have you done that?

A. To some extent.

Q. To what extent? A. You will see in our financial statement that general reserve varies at different times in our organization. It has been depleted and has been increased a little.

Q. And has been as high as? A. I really could not say.

Q. \$4,000 or \$5,000 or \$10,000 or less than that?

A. I think it might be higher than that.

Q. But it has a great fluctuation? A. Yes, but --

Q. Do not interrupt me, please, and we will get along fine. When it needs money beyond what it has out of its share capital and this reserve that it may have from time to time the company finances by borrowing heavily from the bank; is that right? A. That has been the usual way.

Q. That seems to be the three sources where you get money to operate? A. Yes.

Q. Share capital, a small reserve, and bank borrowings? A. Yes.

Q. Is that right? A. That is right.

Q. Now we are getting the picture. You say in 1944 legislation was obtained to permit individual growers to become members. Tell us about that as briefly as you can. A. As briefly as I can. That is not just as it sounds. It goes on further, an individual on the approval of the directors. An individual who only represented his own orchard, unless he was a very large grower, would not be considered for a moment, but there are individuals who are handling a large volume of growers' apples.

Q. That is the effect of the legislation, to let an individual come in. He does not have to become incorporated? A. That is true.

Q. Since that legislation was obtained have a number of them come in? A. Not a number, but a large number of apples have come in.

Q. How many members have come in? A. Of the individual members I think only two.

Q. All right. Your business consists at the present time, and will consist in the future, of two main branches, namely the disposing of the fresh fruit and the processing and disposing of the processed commodities? A. That is the marketing end, yes.

Q. Do you at any time -- and by "you" I mean the United -- buy apples from the members at a fixed price or at any price? A. No, not to buy them at a set price.

Q. Do you buy them at all? Let us get it plainly. Do you buy them at an undetermined price depending upon what you get for them or do you merely take them on consignment? Which is it? A. We do not buy apples from our members in any capacity but the articles of our constitution make those apples ours.

Q. I am not talking about your constitution. Just direct your mind to my question and we will get along fine. I am merely asking you one question at a time. Under any circumstances do you buy apples from your members? A. No.

Q. Do you buy apples from people who are not members? A. No.

Q. Do you handle any apples for people who are not members? A. Yes.

Q. On what terms do you handle apples supplied by

non-members? A. On the same terms as we do for our members' apples. We treat them the same.

Q. You treat them the same? A. Yes.

Q. You dispose of their fruit as you may see fit, get the best price for it you can either as fresh fruit or by processing it and you make returns for it in accordance with what you get? Is that the way you do it? A. That is right.

BY THE CHAIRMAN:

Q. What deductions do you make? A. We make deductions to take care of our operating expenses. If we have a good year we try to take care of some depreciation. If we have a good year when the apples have brought a great deal of money and the growers are getting more money than they have had for some other years the directors will allow us to set aside some reserve such as doubtful debt reserve or something of that kind.

BY MR. PARKER:

Q. Then do you keep your accounts in such a way that you can account to each grower for each grade and variety of apple according to what they bring or are they all put together and averaged to do sort of summary justice to them all? A. We are a federation and we keep our accounts in such a way that each one of these units operating with us receives full value for their apples but they make distribution along --

Q. Along grades and varieties? A. Grades and varieties. That is, we take the apples from the local.

Q. I understand. That is fresh fruit as well as processed fruit? A. As well as processed.

Q. Do you keep separate accounts in your company for the processed fruit as distinct from fruit sold fresh?

A. Yes.

Q. So that you can tell at any time whether you are breaking even in your processing as distinct from the fresh fruit? A. Yes, sir.

Q. What has your record been in processing? Has it been reasonably profitable? A. On account of it being a low price fruit our policy has been to give the growers all that we possibly could for it.

Q. I realize that, but I merely asked you whether or not it has been profitable? A. You understand profitable depends on how much we take off for profit, and I am trying to answer that question.

Q. I realize that, but has it been profitable or has it not? A. No, it has not been.

Q. All right, that is the answer. We have heard a good deal about these processing plants. I notice from the statement which you filed that in the assets of the company there is one property at Kentville. I understand that is an office property where the head office business is conducted? A. Office and warehouse.

Q. The next property is a property and plant at Aylesford, \$134,520. I understand that is what we call the original processing plant in the valley? A. Yes.

Q. That is entirely owned and controlled by United? A. Yes.

Q. Or is that company simply a member of United? A. That was a company owned and operated by the United.

Q. And the same applies to the plant at Berwick? A. Yes.

Q. Those are all substantial assets this company owns outright. How did it purchase them? Where did it get the funds to purchase them, surely not out of the

\$60,000 of share capital you mentioned a moment ago?

A. It was purchased out of credit that our organization had, not by assessing but by borrowing money.

Q. Have the loans been paid off? A. No.

Q. How much of that \$140,000 under those two items is still covered by indebtedness? Can you give me that in round figures? A. You will see it has been depreciated.

Q. I see the depreciation, but how much did it cost you? How much money was actually put into it?

A. Into that --

Q. In those two plants? A. Probably near \$150,000.

Q. From where did the money come which you put into it, all borrowed money? A. Yes.

Q. And still none of it paid back? A. It is paid back every year in our financial obligations.

Q. But where does the money come from to pay it back? A. Well, apples and the general business of the company. We never assess for it.

Q. Wait, just stop right there. It comes from a certain amount received by this company for the sale of apples? A. It would come off; we had to settle it up.

Q. Part you have paid for; you have reduced it substantially? A. Yes.

Q. The money you used to reduce it came from the gross proceeds of the sale of apples by United, did it not? A. Some of it might have come from profits.

Q. You were there. Tell us whether it did or not? A. That was not my end of the business.

Q. The answer is that you do not know? A. There are lots of things I do not know.

Q. Is that one of them? A. Well, I will call it

that.

Q. Do not call it that just to get rid of it if it is not so. All we want are the facts. Now we come to the Simms plant at Berwick which is a plant bought under an agreement of sale for \$20,000? A. Yes.

Q. When was that agreement of sale entered into?
A. About three years ago.

Q. Is that a processing plant? A. Yes.

Q. A new plant? A. A fairly new plant.

Q. Why did the company buy it when they did not have any money to pay for it? A. We found our plant at Aylesford was not large enough. For two or three years we had been renting this plant and paying \$5,000 a year rental. We got the happy idea we had better let that go on payments and we bought that on terms and are paying for it that way.

Q. So when it is paid for the company will have acquired a \$20,000 asset there? A. Yes.

Q. And again the money which is going to be used for it will come from the proceeds of apoles sold by United or processed by them? A. Yes. You might call it money that has not been returned to them. They still own it.

Q. Then I find a little further down the page under the heading "investments" stock in the Union Dehydration Company Limited, \$4,000. I understand that is the plant at Port Williams? A. Yes.

Q. In which United has a controlling interest in the stock, something over 50 per cent? A. Yes. That is the same way; we needed more --

Q. I did not ask you why you needed it. I merely asked you what it is. A. Well, it says that.

Q. No, it just says stock in Union Dehydration company Limited. That is the company that for perfectly good

reasons, no doubt, you have financed up to 50 or 51 per cent? A. Yes.

Q. And you hold the stock in that company? A. Yes.

Q. Have you paid for that stock? A. We still own our interest in the building.

Q. Have you paid for the shares of stock you own or what did you pay for them, or how did you get them?

A. Well, we built it.

Q. You built it? A. Yes.

Q. United? A. United with three others of our companies and with an English controlled interest of 25 per cent which has been bought since.

Q. All I am getting at is this company has what you call a \$4,000 interest in that company? That is the value you place on its stock? A. Yes.

Q. And it is paid for; you do not owe that amount of money as you own it outright? A. Yes.

Q. Therefore somebody must have found some money to pay for it, either by building it originally or buying it. You say you built it out of your own money. Are these the only processing plants in which United is interested?

A. No, lately we became interested in another processing plant.

Q. When? A. Last year.

Q. Would you mind giving us the name of that?

A. Scotia Gold.

Q. What did you do there, buy the shares or assets or what? What is the arrangement with Scotia Gold?

A. I am not too familiar with that.

Q. You are not? A. No. I am just one of the directors of the company and I am not too familiar with exactly how that purchase was made.

Q. At any rate, have the negotiations been finalized? Do you know that? A. I do not know that, but I know we are controlling it.

Q. Pardon? A. I know we are in control of it.

Q. That is, it is being operated by United at the present time. A. Yes.

Q. When did that operation begin? A. It commenced when the operating season started.

Q. Last fall? A. Yes.

Q. You cannot tell me whether control was acquired by entering into an operating agreement for a term of years or whether the company purchased the shares of Scotia Gold or whether they purchased the physical assets? A. No, I cannot tell you.

Q. Who can tell me that? A. I think our Manager probably could.

Q. Mr. Leslie could if he were here? A. Yes.

Q. You cannot? A. No, it is a part with which I am not really familiar.

Q. Are you in a position to supply the Commission with a copy of the agreement, whatever it is? A. No, I am not in a position.

Q. Would you be good enough to inquire if that is possible with the permission of your directors? A. I have not it.

Q. You have not at the moment but will you undertake to inquire and see if that can be supplied to the Commission? A. I really could not.

Q. Well, I will refer it to the solicitor.

MR. NOWLAN: For the Commission only?

MR. PARKER: Certainly, not for the public. I suppose I am right in stating that a confidential agreement supplied

to the Commission will not be made public, Mr. Chairman?

THE CHAIRMAN: Certainly.

BY MR. PARKER:

Q. Can you tell me this? Has any money passed from United to Scotia Gold as a consideration for that agreement, whatever it may be? A. I would not know that. I know the manager of that plant is still carrying on. We are employing him in the capacity of general supervisor of all our processing plants.

Q. Are you paying the employees' wages? Are they being paid by United? A. I do not know how that is being handled, I am sure.

Q. Well, I have no doubt Mr. Leslie knows. A. The only thing I know is we are paying him a salary.

Q. What I am getting at is what was the object of entering into that agreement? I mean it seems a little apart from the cooperative idea. It seems like branching out. Scotia Gold was an ordinary limited company, was it not? A. Yes.

Q. What was the object of taking that over? A. I do not know what all the real objects were. I know one of the objects which appealed to the directors was we were going to need more processing plants in the future.

Q. Why? A. We felt on account of the increased field. In these three or four years that we have been marketing apples the way we have we have felt more and more that the trade was turning against a lot of our low-grade apples we had been selling in the past. They were demanding more and more a better product and we felt that the future of this line is being processed.

Q. Did you feel that the company did not have sufficient processing facilities to take care after the

war of all the apples which would naturally go into processing plants rather than going overseas as fresh fruit? Is that your position? A. That is right. That is the way we felt.

Q. And that there would be a surplus of the processed variety of apples? A. That was our guess, anyway.

Q. That is from your members. I am not talking about the whole valley but your members. A. Certainly.

Q. In addition to the processing plants operated by United there are a number of others in the valley?

A. Yes.

Q. Carrying on much the same type of processing as these plants of United; is that right? A. Yes.

Q. At the present time, and for the last year or two, United as well as the independent people have been disposing of their fruit under the direction of the Nova Scotia Apple Marketing Board, have they not? A. Yes.

Q. As I say that applies both to the United and to the non-United growers? A. Yes.

Q. And the manager of that board is whom?

A. R. J. Leslie.

Q. That is the same gentleman whose name you just mentioned as manager of United? A. Well, he is --

Q. Is it the same gentleman? A. It is the same gentleman.

Q. How long has he been manager of United? A. He was employed by United over a year ago.

Q. About what time? Can you tell us how long over a year ago, the beginning of the 1943 apple season?

A. It may not be hardly a year since we employed him. It may be less than a year.

Q. It was my impression it was less than a year, but I was not sure. A. I would think about nine months or so.

Q. About nine months? A. Yes.

Q. Counsel is suggesting you may possibly be wrong about that. He thinks it is a little over a year. A. It may be over a year.

Q. Put it this way; you and I both know the apple season begins down there in the latter part of September and goes on from then? A. Yes.

Q. That is the shipping season? A. Yes. Mr. Nowlan is right. We did engage him before this year commenced.

Q. Let us get it right. I say the shipping season begins late in September? A. Yes.

Q. And last year, in the shipping season which has just ended now, what we will call the 1944 season, did Mr. Leslie act as manager of United for the 1943 crop? A. No.

Q. Who did? A. Mr. Meek.

Q. And he was replaced by Mr. Leslie in time to take over operations for the 1944 crop; is that right? A. Not exactly.

Q. What is it exactly? A. Before the operations of the 1944 crop began we leased this manager to the marketing board, that is, they wanted him from us and we let them have him. Only in a matter of words is he our manager now.

Q. But Mr. Leslie had been manager of the marketing board for several seasons prior to that? A. That is the reason they thought they wanted him.

Q. Because of his connection with the marketing board it was felt he would make a suitable manager of

the United Fruit Company? A. No.

Q. What was the reason? A. We had been acquainted with Mr. Leslie for many years.

Q. Was there any connection between getting a common manager for the Nova Scotia Apple Marketing Board and the United Fruit Company Limited? A. How is that?

Q. Do you think that entered into it? I will put it another way. Was the fact that Mr. Leslie was manager of the Nova Scotia Apple Marketing Board a factor which induced the United Fruit Company to employ him as their manager? A. Not particularly.

Q. Well, was it generally? A. It might have made him appear to be a more suitable man. He had had a chance to show his ability in this position, and that might have been a factor.

Q. Was it a factor? You were one of the directors who brought their judgment to bear as to whether that was so or not? A. It is very difficult to analyze these things and make it clear but if you would allow me a word of explanation --

Q. I would rather you answered the question. You were one of those who made the decision; you were one of the directors? A. I cannot say that was a factor.

Q. You do not know whether it was or not?
A. No.

Q. All right. The fact is that the personnel of the directorate of the Apple Marketing Board and of the directorate of the United Fruit Company are pretty much the same, are they not? A. To some extent, yes.

Q. Let us see to what extent. How many directors are there in the United Fruit Company at the present time, nine? A. Nine.

Q. And how many directors on the Apple Marketing Board? A. How many of them are directors on the Apple Marketing Board?

Q. No, that is not my immediate question. How many directors are there on the Apple Marketing Board?

A. I think about fifteen.

Q. How many of the nine of the United Fruit Companies are also members of the Apple Marketing Board directorate?

A. That is a little hard to get at.

Q. Take your time. A. Of those nine men I would think there are about five of them.

Q. Four or five or six, the majority of them, anyway?

A. Four or five.

MR. NOWLAN: It is five.

BY MR. PARKER:

Q. Five out of nine directors of United are also directors of the Apple Marketing Board? A. Yes.

Q. You say the total directorate of that board is fifteen? A. I think that is right.

MR. NOWLAN: It is fifteen or eighteen. I am not sure which.

BY MR. PARKER:

Q. The Apple Marketing Board is a corporation set up under Nova Scotia legislation, is it not? A. Yes.

Q. How are its directors appointed? A. They are appointed by a popular vote of the growers, by a ballot vote.

Q. What was the extent of those who were entitled to vote? A. They had to be fruit growers, all those who were fruit growers, who were shipping apples through this marketing board.

Q. Was it zoned off? A. It was zoned off.

Q. How many would be elected in the western part of Annapolis county? A. In the western zone there would be perhaps two men elected, and if it represented more apples there would be three or four.

Q. So many from each county and so many from each zone? A. Yes, and each grower had a letter ballot given him with the names. In fact, there were nominations.

Q. I make this suggestion to you for what it may be worth, that the fact you have to that extent common directors of the United Fruit Company and the Apple Marketing Board, and on the assumption that the Apple Marketing Board continues after the war and the English market is again open to the growers, puts the United Fruit Company in a very advantageous position over the independent growers in directing the disposition of apples available for processing? What would you say to that, A. You are introducing an angle that I think is a little strange.

Q. Strange, you say? A. Yes. These are positions of trust. It seems to me that a man is not supposed to be working for some personal advantage or something of that kind, or to help his friends.

Q. Perhaps I have made a strange suggestion. I do not know. A. I thought it was a compliment to the United Fruit Company that so many of our leaders were considered by the fruit industry to be the proper men to carry on this general work for the industry.

Q. Is it your view that after the war so far as one can tell on an average crop in the Annapolis valley there will be sufficient apples for processing to keep both the independent plants and the United Fruit Company plants working at full capacity during the season? Is that reasonably likely? A. I might give my opinion that I

think there will be, and if you wanted my reasons I would give them to you.

Q. Perhaps I can help. I take your reason to be this -- if I am wrong you will correct me -- that after the war, as I think you have already stated, a greater quantity of the production of apples is going to be held back from the English market and more of them, and a better class, will be put through processing plants than prior to the war when they were limited largely to the culls; is that the answer? A. There is another angle.

Q. Is that one answer? A. Yes.

Q. If there is another you can add another. A. I would like to add this, that since this processing has been going on there has been built one of the largest plants in the valley that there is in the whole dominion.

Q. Which one is that? A. That is the one at Kentville which at the present time has never processed an apple. The owners of that are large processing interests in the valley. They are confining the work of their plants largely to government contracts on vegetable products. We do not know how much the market will increase for that after the war. We have every reason to believe these plants will be engaged largely in work of that kind.

Q. There are no negotiations going on between United and the controllers of that plant to take it over?

A. It might be the other way.

Q. They might want to take you over. There are no negotiations along that line at all? A. Not yet.

Q. As to the other part of your business, namely the supplying of fertilizer, spraying materials and whatnot, I think you have already said you keep absolutely separate

accounts in respect of those? A. Yes.

Q. So that each has to stand on its own footing as a department of your company? A. Right.

Q. And the system is that to supply the farmers in the spring with spraying materials you have to extend them a good deal of credit? A. Through their locals, yes.

Q. You extend it to the local and the local in turn extends it to the individual grower? A. Yes.

Q. On what terms with reference to what it costs United? Do you supply these goods to the locals at cost? A. No, we have not been doing that.

Q. On what terms do you deliver them to the locals? A. Not at cost.

Q. You said not at cost. Now I am asking you on what basis you do it, at what mark up? A. We try to meet the lowest competitive markets that might attract our grower or make him think we were not giving him the service that other people might be willing to give him.

Q. Do not get me tangled up with service because I am talking about spraying materials, not service.

A. We have not a set rule.

Q. Let us take it in orderly fashion. To begin with United buys the spraying materials and the fertilizers?

A. Yes.

Q. And pays for them? A. Yes.

Q. Then do you sell them to the locals? A. Yes.

Q. And the locals pay you for them; is that right?

A. Yes, but it is termed in their accounts usually --

Q. Never mind that. Please follow my question. You sell them to the locals at a fixed price? A. Do you mean by paying for them they hand over cash to us?

Q. I did not say anything about paying for them.

I have not come to that yet, Mr. Bishop. A. Well, I cannot answer the question if I do not know what you mean.

Q. Just wait till you understand the question. I say when you negotiate the sale of a quantity of spraying materials or fertilizers to the local do you make a bargain of sale that you will sell them so many tons of this or that for so many dollars? A. We do not negotiate a sale.

Q. How do you do it? A. We are put there to supply them with fertilizer, and we supply them.

Q. You must supply them on some terms? You do not give it to them? A. No, they expect to pay for it.

Q. Exactly, and that is what I am trying to get. They pay for it but on what terms and how much? That is what I want. Can you tell me what the terms are on which you supply these materials to the locals? A. You must understand these people fix their own --

Q. Mr. Bishop, perhaps I ought to understand a whole lot more than I do, but I think you understand that question? A. Yes.

Q. If you do would you be good enough to answer it? A. I will have to answer it this way.

Q. But answer it, that is all. A. We simply figure the needs of the organization and they are the ones that act on the prices in the end.

Q. Do you think that is an answer to my simple question? A. Yes, I think so. I think it would answer it.

Q. Then I am afraid I will have to disagree on that and will have to press you a little more closely. You deliver say ten tons of spraying materials to local No. 2?

A. Yes.

Q. When you talk to them about it over the telephone or write to them or however you decide to deliver that much is the price stated that the local will pay United for it? A. We make a tentative --

Q. Is the price stated at that time? A. Yes.

Q. Why did you not say so when I asked you the first time? A. Because that price does not stand in the end. In the end we make another price.

Q. Never mind, we will come to that. The price is stated, and that price which is stated, as you have already said, is what you consider a fair price having regard to competitive sales? A. Yes.

Q. Is that right? A. Yes, it is a tentative price.

Q. Is the local given a period of time in which to pay that price, thirty days, sixty days, three months, or some such period? A. No stated time.

Q. It may vary for the different types of materials? A. But he is expected to pay for it some time.

Q. Does he as a rule? A. Yes.

Q. Now, the point is the price that you set when he has to pay for it, the price you expect him to pay you for it some time, is a greater price than what it costs United to buy it? A. Certainly.

Q. What I want to know is what system of mark-up you use? How much more do you charge the local for it than what it cost you to buy it? A. We have no special rule.

Q. Have you some general working experience? Is it 10 per cent, 20 per cent, 30 per cent, or how do you arrive at the price? A. No rule except we want to make it in line with the general situation in fertilizers at

that time as near as it will satisfy our members because it is only a tentative price. It is not the price they are going to pay for it.

Q. It is only a tentative price? A. Yes.

Q. Well, that is helpful. I was talking about a fixed price. I thought we were past that trouble.

A. There is no fixed price. I tried to get away from that but you would not let me.

Q. Perhaps I held you too closely. I have had experience with some people that if you turn them too loose they get too far away from the point. Perhaps I have overdone it in holding you down. Let us get it right. What do you mean by a tentative price? A. Before the season is over we rebate them certain moneys.

Q. On what basis do you make rebates? A. Per ton basis.

Q. What does that mean? How do you arrive at the amount per ton of the rebate? A. Fertilizer is made up of different kinds of fertilizer.

Q. I know all about that. That does not enter into dollars and cents. A. I cannot explain it without mentioning these things.

Q. I think you can if you follow me. A. Each one of them has a separate price according to the way we have to buy it.

Q. According to the quality? A. No, not according to the quality.

Q. Go ahead; we will get along that much faster.

A. According to the way we have had a chance to buy that. If we have had a chance to buy nitrate of soda at a greater saving than it is being sold generally we can make a larger rebate. If it is something we have to buy at a

price which is very fine and close we make a smaller rebate.

Q. How do you arrive at the amount of the rebate? Do you merely deduct the cost of handling it and give them the benefit of everything else? A. We try to give ourselves enough for our trouble.

Q. That is the meat of the whole thing. You try to charge enough so that it will first pay what you have to pay out? A. Each department.

Q. Then, No. 2, you try to cover your office and managerial costs? A. Yes.

Q. Then you try to have a little left over for what shall we call it, profit? A. As much left over as the directors are willing to leave with us.

Q. Like any person they want to make a little profit? A. No, we do not want to make profit.

Q. Then what is it that is left over? A. We want to make a little surplus to pay for our building. Some day we hope to get out of debt.

Q. I do not care what you do with the profits. You may give them to charity or smoke or drink them up. My point is do you operate on the basis you want that small margin of profit? A. No, I would not call it profit.

Q. What would you call it? A. I would call it surplus because until we have paid for our equipment, until we have working capital, I do not think we should consider profit.

Q. Have you not merely swapped so many dollars for so much physical assets in the building? A. We are still working on borrowed money.

Q. All right, that is the way you function. We will trace it one step further and perhaps we will come to the

end. The local, having got this fertilizer and spraying material from United on the basis you have described, in turn hands it out to the individual growers? A. Yes.

Q. Are you in a position to tell us on what terms the locals deliver this fertilizer and spraying material to the grower? A. As near cost price as they can and still be able to function as a handling organization.

Q. Do they want a little left over to build up a little for their treasury, too? A. If you will allow me --

Q. No, you answer my question if you can.

A. I cannot answer for them. I know what some of them do.

Q. Tell us what some of them do. Go ahead.

A. The company I belong to try to have enough left over to pay their running expenses, and a little for depreciation and repairs. That is practically all.

Q. And a little for contingencies? A. We do not have many contingencies because we are perhaps a simple type. That is, we market the goods and provide supplies but we do not engage in anything further than that.

Q. I am only interested in a very simple question as to whether the term on which they hand out spraying material and fertilizer to the farmers is on the basis that they will pay what the local had to pay you for it plus the local's cost for handling it and plus a little more for good measure, call it earnings, call it surplus, call it profits, call it anything you like. Is that the principle on which they operate? A. I could only answer that in my own way because each local runs its own business. They have as many different ways of coming at that as they have locals, but that is the principle they are operating on,

simply to give service.

Q. Can you tell me a little about this matter? At the last session of the Nova Scotia legislature there was a certain bill promoted by the United Fruit Company, was there not? A. Yes.

Q. And it related to the future operations of the United Fruit Company? A. I am not very proud of it either but yes, sir.

Q. I do not think there is any reason to be ashamed of it. To begin with the bill was promoted by the United Fruit Company and was introduced in the legislature.

A. No, excuse me; it was promoted by the Nova Scotia Fruit Growers' Association.

Q. But it had the blessing and support of the United Fruit Company, did it not? A. Not altogether.

Q. They had several meetings over it, did they not? A. Yes.

Q. Do you read the Berwick Register? A. I am pretty careful what I read. There are some papers I keep away from.

Q. I read in the Berwick Register where resolutions were introduced at a meeting of the United Fruit Company relating to this bill. Were you present? A. If it stated that it stated something that was altogether wrong because there were no meetings of the United Fruit Company. But then I would not be surprised at that.

Q. Probably I am wrong then. What meeting was it where this bill was discussed and voted on two or three times with sometimes a majority of one one way and sometimes one the other, and the bill was finally killed,

banned? A. I would like to have a chance to say something about that bill, but this is no place to do it. There was a meeting of the directors of the United Fruit Company.

Q. Yes. A. To consider a certain act which was different from the one that was introduced. They approved of this act but the one that was finally introduced was asked for by two or three members of that directorate. They wanted a natural products bill instead of a marketing act which we wanted. Thinking the natural products marketing act must be a great thing from what these people said about it they said, "Well, if you cannot get this we will take the natural products marketing act." Nobody in that room had ever read or seen that act, not one of those directors. When they saw it they would not touch it with a 10-foot pole.

THE CHAIRMAN: Are we getting anywhere?

MR. PARKER: Not very far.

THE CHAIRMAN: I am not a bit enlightened.

MR. NOVLAN: It is not germane to this inquiry at all.

MR. PARKER: If it is not enlightening I will not pursue it.

THE WITNESS: Because it meant putting our business right in the hands of the government.

BY MR. PARKER:

Q. The point is that an attempt was made to get some legislation through the legislature with the idea of doing what, in a word? A. With the idea of being able to conduct orderly marketing in the future.

Q. In other words, to make the Apple Marketing Board permanent as distinct from a war measure? A. No, that was not the object. The object was orderly marketing.

Q. All right. A. Orderly marketing as against

disorderly marketing.

Q. I see. A. Cutthroat competition.

Q. As to all this improvement you have been telling us about today in the marketing and processing of fruit is there any reason of which you are aware why that could not have been accomplished -- A. How is that?

Q. Do you know of any reason why all these improvements could not have been accomplished -- A. Have not been accomplished?

Q. Could not have been accomplished through the medium of ordinary joint stock companies just as well as through a cooperative association? A. It would not be natural to accomplish it that way.

Q. Why? A. The object of a joint stock company is to make what money they can out of the business they are doing. Our object was to build up our industry by giving people the fruits of their labour, giving them everything we could. For instance, when I was a boy there was a speculator worth two or three million dollars. We would like to have seen that divided amongst the growers.

Q. You want a little of their profit, do you?

A. We wanted the price our goods brought on the market.

Q. Then you make an argument more than a statement of fact towards the end of your brief that the apple growing industry as such should be entitled to some government assistance by way of tax exemption just because of their struggles and hard times. Do I apprehend that correctly?

A. Only as long as they need this money to get going. In other words, there are a lot of cooperatives handling a product like berries which does not require an outlay but a product like apples requires a number of warehouses which cost a lot of money, cold storage plants and working

capital on account of the volume of supplies they have to buy in advance of the season when that production is marketable. They need working capital and until that is acquired I think they need to save some but after that I do not see where there is any room for profits.

Q. On page twenty-four you put it this way:

"It has already been suggested to this Commission that the social benefits resulting from cooperatives warrants special consideration. This company further believes that tax exemptions can be justified as a fiscal measure, that thereby demands upon the national treasury will be lessened and ultimately opposing interests will pay less in taxation because of such exemption."

Are you putting it forward that the fruit industry is entitled to tax exemption on that ground? A. It is an argument for better citizenship.

Q. Is the argument taken to the point that in order to attain that better citizenship certain citizens should be tax exempt? A. I think if an organization has capital and is trying to make profits they have as much right to be taxed as anyone. I do not think there is any place for profits outside of working capital in a cooperative organization, whether that hurts or not. That is just my opinion.

Q. During your brief -- I do not know what page it is on -- you made the suggestion that the United Fruit Company originated the idea of chartering ships directly to cut out the heavy freight rates from the valley to the shipping point and through the north Atlantic combine?

A. Yes.

Q. I was under the impression that a gentleman by

the name of Chase was the pioneer of that improvement?
Am I right? A. You are a little wrong and right, too.

Q. I am glad I am partly right. A. He was in the potato business and used to look after chartering there. You will notice in the first of the brief it speaks about an attempt made to organize an association to cut freight rates. Flour was going at 26 cents and we were paying \$1 a barrel on apples. The two gentlemen back of that movement were Dr. De Witt from Wolfville and Dr. Balcom from Aylesford.

Q. I was under the impression that the man who broke the freight rate combine, so to speak, was Mr. Chase who brought a steamer right up through the marshes to Port Williams to load it with apples for the European market?
A. You have been wrongly informed. If I could tell you something privately I would like to have a talk with you.

BY MR. ELLIOTT:

Q. I should like to ask a question or two about the 1944 financial statement. I notice among the liabilities an item under accounts payable in the sum of \$58,000. Does that include accounts payable to members?

A. None of that is payable to members. That is borrowed money.

Q. There is quite a small repayable reserve under the heading "repayable reserve, etc." of \$2,136; what is that? A. We started to raise capital by taxing a certain part of our business for a repayable reserve. After a few months we abandoned it, but that amount was taken off in the meantime.

Q. That was deducted from the proceeds of sale?
A. From some of our business; I forget what part of it

it was.

Q. How long ago was that? A. Just a year ago, but we concluded it made so much trouble in keeping accounts and trying to follow it through the local companies to the individual and made so much work that it was not worth while. There was a real protest against it so we abandoned that idea for the present.

Q. Under current assets there is an item of inventories as certified by a responsible official of approximately \$97,500. What does that include, supplies or fruit?

A. It might include supplies. It might include manufactured products that had not been marketed yet. We worked some for the government. We canned apple juice for them under different contracts. I do not know really what it refers to, but it refers to other supplies we bought too heavily and are carrying over for another year or to some of our products that were still unmarketed.

Q. It may be either supplies or fruit or fruit products or both? A. It would be fruit products; it would not be fruit.

MR. NOWLAN: It is mostly inventory for the government. About 90 per cent of that item was M & S contracts on which they had not taken delivery.

BY MR. ARNASON:

Q. Have you ever tried to borrow from your members through your locals, that is, tried to raise new capital by borrowing from your members through your locals?

A. No, we never have.

Q. Has that ever been considered? A. The question of making a different setup has been talked about and discussed, but if it was worked out to any extent it might perhaps frighten us away from it. The readiness of the

banks to supply us with what moneys we needed to run our business would perhaps be a reason for not adopting it.

Q. Have you power to repurchase your shares?

A. What is that?

Q. You have no power to repurchase your shares?

A. No, we have not.

MR. NOWLAN: Unfortunately not.

BY MR. ARNASON:

Q. Referring to page 21 of your brief you state in part as follows:

'This fact supports the contention already made that although the grower needs to receive in cash the ordinary price for his product yet he is prepared to leave with the company for the time being additional moneys such as would be received from processing.'

You are thinking of the future there, are you? A. Yes. We are thinking of what has happened under the government marketing plan at present. You see we have had to compete and, in fact, everybody has had to process at the same price. Those who are not cooperators in particular want to get a fair price for their work. Under one price we get our share so in that way our factories have been giving us a profit, or giving us a surplus. I will put it that way. I use that word "profit" because I forget and think it is mine, but we have been pleased with the surplus left with us. We can see a way of helping to liquidate some of our liabilities. In fact, in the last few years we have been able to liquidate some.

Q. You are proposing to hold back a portion of these earnings, or whatever you like to call them, and credit the growers with these earnings while they would be retained by the company? Is that what you were thinking

of, holdbacks, as Mr. Parker called it? A. It is a little hard to pin down that actual money to each grower to whom it belongs after it has gone through the processing plant. There are so many different operations. There is cider canning.

Q. That is the general principle? A. For the present that is the general principle. The growers are willing to leave it. Of this money they got for skins and cores they let us have \$50,000 to put right into a cold storage plant because we needed a plant.

BY MR. ELLIOTT:

Q. When you say your members let you have that \$50,000 was it ever paid out to your members? A. No, it was not. Each member signed his personal obligation that he was willing for us to keep that. In other words, the Marketing Board would not do it any other way. Of course, the Marketing Board was handling the money, and they are compelled to pay everything back to the grower. In this case the growers all signed up. All the money we keep is the money that has been signed over to us by our growers.

Q. They signed that individually, and no one individual refused to sign? A. Yes, some of them refused to sign, and all that refused to sign got their pay.

MR. NOWLAN: Ninety per cent signed.

BY MR. FILLMORE:

Q. I should like to ask one or two questions. Mr. Bishop, I understood you to say in answer to Mr. Parker that part of the money which you invested in plants and in stock in another company or companies was raised by borrowing. Is that correct? A. Yes.

Q. And the balance of that came from what you call surplus? A. I can only answer you in a general way

because it was not earmarked and clear cut. We were using our credit to do our business, and we used our credit to build a plant. Any surplus we had went.

Q. We will put it this way, that in addition to borrowing money you used money which you had available in the bank? A. I am afraid you might get me in trouble if I tried to answer that question definitely because there never was a time when we had these things clear cut so as to know whether we had a surplus or where we were standing.

Q. I understood you to say that you had a surplus arising out of the processing of apples because you charged the same as your competitors? A. You mean in the last two or three years?

Q. Yes. A. Yes -- you mean this plant we are buying now?

Q. Any investments you have made in the last two or three years. A. The last two or three years have been devoted to cleaning up debts on old business. We have not been making any investments except some kind of agreement of sale we entered into with this plant we have talked about.

Q. I understood you to say that while you were paying for your plant and equipment you did not call your surplus profit because you were using the surplus to pay up what you owed. Was that correct? A. That would be my idea of it. Just what I said I do not remember but that would be my idea of the distinction between surplus and profits. So that it would be surplus we were using.

Q. I understood you to say that while you were paying your liabilities you called the money with which you paid them surplus? Some of your surplus is going into that? A. That would just be my interpretation.

Q. Where does the money come from with which you pay interest on your obligations? A. We have got to get it from the growers. It is the growers' business.

Q. Do you have any money left over after you process your fruit? A. We have been having some left over in the last two or three years as you will see by our balance sheets. Before that we were just as liable to have a loss as a profit.

Q. You call that surplus money you have left over? A. Yes.

Q. That surplus money you are using to reduce your principal liabilities and pay interest? A. Yes.

Q. You have no contract with the growers by virtue of which they can demand payment of that surplus from you? A. They lend it. They are the ones who own it.

Q. Have you any contract with them whereby they are able to demand the moneys from you? A. No, not knowing what part each one would share in it, but as shareholders of our United Fruit Company every one of these companies owns our United Fruit Company business. We are a joint stock company and it is their business.

BY MR. NOWLAN:

Q. On that point Mr. Fillmore raised I have one last question. Your companies have never used an agreement with their members extensively? A. No. That is one of the things we have kept away from.

Q. It was approved by legislation but it has never been used? A. It has been used some.

Q. Do the by-laws of the company require the company to pay back to the members all of the price for the apples after they have made deductions for handling charges?

A. That is the idea, yes. Our idea of contracts is that

if a man does not want to be bound you have got to build a pretty high fence to keep him. If our growers were not willing to stay in without contracts we did not want to undertake to keep them in there by force.

THE CHAIRMAN: That is all, thank you. What have you to offer now, Mr. Parker?

MR. PARKER: I think we will go to pigs next and take The First Co-operative Packers.

THE CHAIRMAN: We are trying to adjourn as near four o'clock as possible.

MR. PARKER: I think we will have time to read this brief.

THE CHAIRMAN: We have some administrative business to do.

MR. FRANCIS: I am appearing for the First Co-operative Packers of Ontario Limited. This is a very brief submission. The General Manager is present and it is almost imperative that he should return to his office tonight. I should like to proceed with the presentation if the Commission see fit.

THE CHAIRMAN: Yes.

KENNETH MORRISON

General Manager,
First Co-operative Packers
of Ontario Limited,
having been duly sworn
testified as follows.

BY MR. FRANCIS:

Q. Mr. Morrison, you reside at Barrie, Ontario?

A. That is right.

Q. You are the General Manager of the First Co-operative Packers of Ontario Limited? A. That is right.

Q. You have held that position since the year 1935?

A. Yes.

Q. When did you enter the packing business?

A. 1913.

Q. Have you been engaged in that business since 1913?

A. Yes, with the exception of four years overseas in the last war.

Q. Apart from the four years overseas you have been in the packing industry continuously since 1913? A. Yes.

Q. Is there any national organization in Canada of the meat packers? A. The Industrial Development Council of Canadian Meat Packers which contains most of the exporting packers of Canada, and all of the larger ones.

Q. Canada Packers, for instance? A. Yes.

Q. Do you hold any position with that council?
A. I happen to be president this year.

Q. Has this brief which you are about to present been approved by the board of directors? A. Yes.

Q. Have you been authorized to present it? A. Yes.

MR. FRANCIS: Before proceeding there are two deletions I should like to have made. The first is on page eight, the first paragraph, commencing on the sixth line with the words "The hogs they send in to their plant" and running from there to the end of the paragraph. There is one other deletion. In paragraph three on the same page which commences, "The Co-operative has never paid" I should like to have deleted all of the words after "livestock" in the second last line, "declared at the end, but before the final closing of the year." That is in the third paragraph.

BY MR. FRANCIS:

Q. Will you now proceed, Mr. Morrison? A. The brief is as follows:

"To the Chairman and Members of the Royal Commission on Taxation of Cooperatives:

"History of Organization.

"The Co-operative was incorporated February 11, 1929, under the Ontario Companies Act as a co-operative without share capital, the main purpose of which was to operate an abattoir to process hogs and other livestock, and to market eggs, poultry, etc., for its members. It commenced operations in 1931.

"The Co-operative is 100 per cent farmer owned and no transfer of membership is permitted except to farmer producers.

"Capital for the enterprise was raised by the members, who were to pay \$100 for membership and in addition to sign a capital note for \$50 in favour of the Co-operative, which note could be pledged by the Co-operative or payment demanded from the member.

"In addition to the foregoing memberships and capital notes, holdbacks from payments for hog purchases from members were made.

"By the end of the first year's operations the corporation had a membership of 1,561 and had received the following from members:

Total subscribed for memberships	\$156,100.00
less unpaid on memberships	<u>21,545.89</u>
Amount paid on memberships	\$134,554.11
Holdback from members (25% off published purchase price of hogs)	<u>25,105.87</u>
Total amount received from members	\$159,659.98

"The capital notes, which amounted to \$78,050 at this date, had not been called for payment.

"The Co-operative lost \$54,489.65 in its first year's operation, and due to loss of working capital the plant was

closed. Subsequently the Co-operative assessed \$25,000 of the loss to the members on a basis pro-rated according to shipments, and made demand on the capital notes of \$78,050 and the balance due on membership subscriptions. By the end of the fiscal year 1933, during which time the plant was virtually idle, the Co-operative collected \$54,872.81 on account of the unpaid balance of membership subscriptions and capital notes as well as \$1,637.13 on account of the assessment of \$25,000.

"After being closed for fourteen months, the plant was reopened in June, 1933 on finances collected from members, as noted in the previous paragraph, and was further aided by loans from the province of Ontario. The loans from the province of Ontario amounted to \$25,000 and were subsequently converted to a mortgage. The loss for the fiscal year ended May 29, 1934, amounted to \$33,541.

"On appointment in 1935 of an experienced general manager, the province of Ontario guaranteed a bank loan of \$100,000. The guarantee is still in effect, but the mortgage of \$25,000 has been paid. There has been no change in the general managership of the Co-operative from 1935 to date.

"In the first full year's operations under the new management the Co-operative operated without loss, and has continued to do so ever since.

"If surpluses were made they were credited to the accumulated deficits until the fiscal year ending January, 1943, when the accumulated net results provided a slight surplus - said surplus being credited or paid to members as an increased purchase price of their hogs sold to the Co-operative. Since January, 1943, the same practice has been followed. In the years 1938 to January, 1943,

inclusive, before the deficit was wiped out, the Co-operative paid out to members a portion of the yearly surplus as an increased price on their sales to the Co-operative, the main purpose of which was to encourage an increase in breeding of hogs and continued because of war-time policy.

"Administration of Business

"The board of directors of the Co-operative consists of seven producer members elected annually by the members, and the board elects a president, vice-president, and secretary-treasurer. The board of directors sets the policy of the Co-operative, which is administered by the general manager hired by them.

"The membership is spread over several counties in Ontario including Simcoe, Peel, Grey, Bruce, Dufferin, Victoria and York. The territories in these counties are split up into zones."

I might say that is the very heavy production area of Ontario. Estimated receipts for the last three months in this area were about 105,000, and we hope to handle about 15 per cent of the total hogs from that area.

"Each zone consists of at least twenty-five members and these twenty-five members elect a zone president, a zone secretary, and three other members, who call meetings of the members within the zone and such zone committees work with the directors and management in the setting of policy and the administration of same. This set-up has been found most useful in many ways. The problem of the producer as to breeding, feeding or any difficulties encountered can be instantly relayed to the board and the board can give advice and practical aid, and also, in the operation of the business the directors and management

can contact members very quickly and readily, through these zones, as to problems of processing, quality, receipts marketing, and many other problems. They can pass on to the producers advice from our departments of agriculture regarding very many problems of the production of food and livestock.

"The Co-operative, since rail grading in particular, has been able to advise its members and at the same time a great many other producers in the area who might not be members, of the prevalence of certain diseases or undesirable conditions in their livestock as to quality and health, which does lead, and has led, to an improvement all the way around.

"The Co-operative, in the past has had, and continues with, policies of breeding and supplying of quality breeding stock, supplementing aids already given by our departments of agriculture, with the result that we have been reliably informed that we have the highest percentage of top grading hogs of any packing plant in Canada. However, our Co-operative would not wish to claim full credit for the outstanding quality of hogs among our members. Certain other packers are also vitally interested in improved livestock and to our knowledge have contributed to this improvement. It is probably significant, however, that our plant still handles and slaughters the highest percentage of top grade hogs and has attained top position in this regard according to our information.

"Some features of bacon improvement work among our members have been adopted by other packers with gratifying results. Furthermore, because of the close contact with our members and the fact that our members are in the processing end of the business, a great many prejudices

which existed between the producing and processing end have been eliminated by education and understanding. The elimination of unjustifiable or uninformed prejudices against the processing end of the business has without doubt reacted to the advantage of the total industry, of which the producing end is primary. No doubt the president of one of Canada's largest packing concerns had something of this in mind when he made his report to shareholders on the 30th of March, 1944, at which time he had the following to say about cooperatives:

'Every packer would welcome the development of co-operative plants. Only one exists at present - the First Co-operative Packers at Barrie, Ontario. It is unfortunate that there is not at least one in each of the chief livestock producing provinces. Such plants would be sources of information regarding the facts of the industry which farmers would accept without question. The existence of a number of cooperative plants would lead to a greater measure of understanding between producers and packers than has ever existed in the past.'

"Description of Business Conducted"

"The Co-operative operates a meat packing plant at Barrie, Ontario, also a poultry killing and egg grading station at Elmvale, Ontario. The Co-operative processes a full line of pork products, such as fresh pork, lard, bacon, smoked meats, sausages, cooked meats, and also a modest quantity of beef, veal and lamb. It also conducts a good business in the marketing of eggs and poultry. Sales are mostly to the retail trade of Ontario, and the United Kingdom through the Canada Meat Board and the

Special Products Board. Previous to the war the Co-operative had a good outlet for certain pork by-products in the islands of the West Indies. This connection is still maintained, although on a reduced basis.

Method of Operation

"The Co-operative, in processing, operates very much the same as any other packing business except that they do not have any livestock buyers or drovers in the country. All hogs are shipped direct to the plant by truck or trailer. A few years ago before the roads were as well ploughed as they are today" --I might say we had three feet of snow when I dictated this -- "certain members would load railway cars at designated loading points and ship to the plant. However, this has not been done for many years and practically all our hogs come direct from the farmer by truck or trailer. During the war years, however, and particularly during 1944 when there was an all-time production of hogs in western Canada, we, in common with all other eastern packers, at the request of Ottawa handled many carloads of western hogs at our plant.

"We endeavour to pay a fair market price to the producer, and in computing this fair market price there are several factors which are taken into consideration. Provided hog receipts are ample, as they were during 1944, the price paid at Barrie would net the farmer shipper the equal or a little better than the Toronto stock yard price when the commission and marketing fee he would pay at the Toronto stock yards is taken into consideration. This fee would, we estimate, equal about 15 cents per hundred-weight, and Barrie's advertised price for hogs would possibly appear in the press and on the radio at approx-

imately this amount below the Toronto quoted price. There would be another saving to most members, however, in the close proximity of this co-operative in trucking expense, and it is this saving that would net them a better price than they would receive in Toronto. There are other times, however, when hog receipts may not be just enough to go around and packers are reaching out for extra hogs when our price paid at Barrie would be the same as that advertised in Toronto. In such cases the actual return to our farmers would be anywhere from 10 cents to 20 cents per 100 pounds better than the net return he would receive from Toronto. Please understand that this is broadly the principle on which the management makes the initial settlement for members' hogs and by and large it is fairly consistent although we would not claim that there is not the odd occasion when this would not work out, but we would be safe in saying that well over 90 per cent of the time, the settlements would fall well within the prices as outlined above.

"In selling the finished or processed product we operate with the use of salesmen canvassing the trade and soliciting orders and delivering the goods to the customer by railway, transport, or our own trucks, the same as other packers. Previous to the war we had territories established in Ontario extending from Timmins in the north country to Ottawa in the east, and Hamilton in the west. Since the war, however, and due to shortage of product for Canadian consumption, our sales staff has been reduced by two-thirds.

"Our product is sold on a competitive market and there are no rebates or trade premiums given to customers.

"Since 1935 the Co-operative has made progress and

basing our earnings in the same manner in which a private company would base theirs, our net return on volume for the past nine years would amount to about 25 cents per hundred pounds or one-quarter cent per pound. This might be considered a normal packing house profit. There is no doubt, however, that during these years of rebuilding, if the Co-operative had not had to overcome the disadvantages and bad experience of the four years preceding 1935 and had had more working capital of its own, its average profit would have been slightly higher.

"Income Taxes

"Naturally with losses facing the Co-operative in the early years there was no question about income taxes. When the Co-operative began to show progress there was the problem of the large losses to be considered and also the assessment of \$25,000 which had been made against our producers during the hard years, which the Co-operative considered as a loan from the members and which had to be paid back. For the fiscal periods ending May 18, 1940, May 20, 1941, January 2, 1942, and January 3, 1943, this Co-operative has made payments of income taxes on the basis of that proportion of the earnings that would be credited to the amount of business done with non-members. The proportion of our business done during these years was approximately two-thirds with members and one-third with non-members, which is close to the required percentage of the Dominion Income War Tax Act, Part 2, section 4, subsection (p). Our Co-operative feels that as long as we do not qualify under the above clause we should pay taxes the same as any other business on that proportion of business done with non-members. However,

in regard to that proportion of surplus over expenses that results from the business done with members, we feel that this surplus rightfully belongs to our members and should be returned to them, and any such returns added to the producers' own personal income. In other words, if a producer wishes to erect a slaughter house on his own farm and slaughter his hogs and sell them as meat direct to the consumer rather than alive, the income tax authorities do not require or request him to make a separate accounting of his hogs up to the time they leave his feeding pens and another separate account from the time they enter his slaughter house until they leave it as dressed meat.

"This method of country slaughtering and peddling of meat is fast disappearing from the Canadian scene much to the benefit and health of our people in general. Our producers, rather than have individual slaughter houses, clubbed together to build one good, modern packing house.

"We realize that this Co-operative, being incorporated under Part XII of the Ontario Companies Act, is a legal entity and although the principle cited above is the essence of the organization of this Co-operative, to the best of our knowledge there are no provisions in the statutes to cover the type of organization required as explained above.

"The Co-operative has never paid any capital dividends, but has paid out a surplus over cost of processing in some years in the way of patronage dividends, and in the last two years, in the form of an additional increased price on members' livestock.

"By-Laws of the Co-operative

"Over the years the Co-operative has been in operation,

by-laws have been amended, rescinded and replaced by other by-laws. On February 8, 1945, the directors enacted by-law No. 8 to consolidate and amend previous working by-laws. Copies of all by-laws including by-law No. 8 are attached.

"Balance Sheets

"Balance sheets and profit and loss sheets for the past ten years are also attached.

"In closing, our Co-operative would like to take this opportunity of expressing our appreciation to the Dominion Government for appointing the Royal Commission to study the very complex problem of the co-operative, and we are satisfied it will receive the fullest consideration which it deserves."

BY MR. PARKER:

Q. There are only two or three questions I propose to ask this witness. It seems to me that on page seven of your brief you have advanced perhaps a new way of disposing of this question, if I understand it correctly. In your paragraph five on income taxes the suggestion is that whereas you do about two-thirds of your business with your members and about one-third with non-members, and by that token are not exempt under the so-called 20 per cent clause, the fair way would be that you pay taxes the same as anybody else on your non-member business? A. Yes.

Q. On profits made from your non-member business, and that you should be exempted from tax on profits made from your member business? A. That is right.

THE CHAIRMAN: They do pay on that business?

THE WITNESS: On the non-member portion.

MR. PARKER: As I understand the suggestion that is

the way it should be.

THE CHAIRMAN: That is what he has been doing.

MR. FRANCIS: That is a fact.

BY MR. PARKER:

Q. As a fact that is what you have been doing?

A. We have paid on that basis.

Q. Have you taken it up with the department and got any instructions on that? A. Yes, sir.

Q. I think perhaps some of us understood once you did over 20 per cent with non-members you became taxable in respect of the whole thing. I was wondering how you got the concession, if it is a concession, to pay taxes only on the non-member business. Was that explained to you by the department? A. That was done by negotiations. I presume it was open to every company to do the same.

Q. You are not conscious of being treated any differently to anybody else who might be in the same position? A. No.

Q. But anyway that is the treatment which has been given to you after negotiation and discussion with the income tax officials? A. Yes.

Q. With a clear understanding on both parts? A. Yes.

Q. In these negotiations was it made clear to you in any way how they got around that 20 per cent clause and only taxed you on the non-member business? I do not follow that. A. They realized we were not in that class.

Q. They realized it was fair and taxed you accordingly, is that it? That has been going on for some years on that basis? A. For all these years I cited.

Q. Whenever you had over the 20 per cent? A. Yes.

Q. And do I understand these heavy losses of the first few years were made up out of earnings in the more

prosperous years succeeding? A. That is right.

Q. How was the money used to defray these past losses treated so far as income tax was concerned? Was it exempt? A. It was.

Q. Was that treated as an operating expense before you arrived at your profits for income tax purposes?

A. I presume it would have been.

Q. Are you pretty sure about that, as to how your accounts were made up? A. There was a portion of these earnings passed back to the members as a patronage dividend.

Q. Perhaps you do not follow me. I understand in the first year or so you had heavy losses? A. That is right.

Q. I suppose you owed money to the bank or people you had to borrow from? A. Yes.

Q. In subsequent years when you got on your feet you were making profits from member and non-member business all merged together as one. Out of those profits you used certain amounts to liquidate these past obligations?

A. That is right.

Q. Having used a certain amount to pay that what was left was treated as your net income for that year?

A. That is right.

Q. You apportioned that between your member and non-member business and paid taxes on the portion allotted to the non-member business? A. Yes.

Q. That has been your system? A. Yes.

MR. PARKER: I think that is all I have to ask this witness.

BY MR. FILLMORE:

Q. As I understand it your price to the producer compares favourably with the price paid in the stock yards?

A. That is right.

Q. From the time you get the animals in the packing plant do you operate the plant in the same manner as in private industry? A. Right.

Q. And you sell in the same way? A. Right.

Q. So that as I understand it the only difference is at the end of the year you make up a profit and loss statement -- A. No, sir.

Q. You do not make up a statement at the end of the year? A. We estimate or try to estimate our profit. We have been very fortunate in estimating or budgeting for profit, estimating what our profit might be. What would have been profit we have dissipated in the last two years by crediting it to members on their purchases in the books of our company. That is individual members. We could tell you in ten minutes the amount of any member up to date. It has wiped out our profit.

Q. Prior to the last two years did you make up an annual statement? A. Yes.

Q. Did that annual statement show whether the company had made or lost money? A. Definitely.

Q. You found out then that you were prospering? A. Those were the years we were paying income tax.

Q. Then you changed your accounting system, and during the year what do you do? What credits do you give people who deliver livestock to you? What do you do during the year? A. Deliver to --

Q. You get livestock from people during the year? A. You mean by members or by non-members and members?

Q. I am just talking about members. A. We buy their hogs on the basis as mentioned in the brief.

Q. And you pay the market price? A. Right.

Q. What other credits do you give them during the year or at any time? A. Last year it was $2\frac{1}{2}$ per cent additional purchase price.

Q. You gave that credit to them? A. To the members.

Q. From month to month? A. It is built up in the books from week to week. It is posted all the time.

Q. Do you keep a running account which indicates how much you are making month by month? A. Yes.

Q. That is it? A. Yes.

Q. So that month by month you try to be in a position to know the result of your operations? A. That is right.

Q. And having those figures before you you are able to make a monthly estimate of your surplus and allocate that amongst your members? A. It could be done but it would not work out. We could not do that.

Q. What do you do? A. You set that at the beginning of the year because some members do not market hogs every week or month. You might set it at 2 per cent in January and find you had to cut it down to 1 per cent in February. The member who had got 2 per cent in January would receive more than the man in February and you would have trouble. So you try and estimate your profit at the beginning of the year, which we did, and it carried right through at the end of the year.

Q. At the beginning of the year you try to estimate your profit? A. That is right.

Q. And you credit the members with that estimated profit during the year on the basis of the number of pounds delivered? A. As an additional price on their live stock.

Q. When do you make payment of that anticipated or

estimated profit? A. That is credited to the member. Under our by-laws there is a manner in which that is paid out. It is set forth in the by-law how that will be paid back. It is paid back in instalments.

Q. Then you take the position that by setting up an anticipated profit you are in a different position as regards taxation than if you waited till the end of the year and got a profit and loss statement which actually demonstrated the result of the year's operations?

A. I might say that if you wait until the end of the year you are not crediting your members. Probably it is not a fair basis. It might be looked upon by the income tax people as not a fair basis. We committed ourselves at the beginning of last year and the beginning of 1943 to pay our members a certain percentage. Last year it was $2\frac{1}{2}$ per cent. We were gambling. If we had run into a loss it would still have been credited to the members and we would have shown a loss.

Q. Do your members hold a written obligation whereby they can demand from you that anticipated profit no matter what the result of your operations? A. No. In the by-laws it is set forth how that will be paid back according to the earnings of the company. A percentage must be paid back each year.

Q. At the end of the year do you not make up a statement to see whether your estimate has been accurate?

A. We know that from month to month.

Q. From month to month your books show the actual result of your operations? A. That is right.

Q. You do not wait to get it yearly? A. Oh, well --

Q. At the end of the year do you not get out a

balance sheet, profit and loss statement? A. Quite so, auditor's statement.

Q. Then you actually find out how you did come out?
A. That is right.

Q. You put that method of anticipating profits into effect when? A. At the beginning of 1943.

Q. You have only been paying income tax on business with non-members? A. That is right.

Q. You have paid up capital of \$150,000 to \$200,000, have you not? A. \$131,000 is our working capital.

Q. To start with you collected money? A. Yes.

Q. Do you pay dividends on that money? A. No.

Q. Do you pay interest on it? A. No.

Q. These people who invested their money have not been very fortunate, have they? A. Not unless they have done business with the cooperative.

Q. They have not been very fortunate in the way of getting back their money or any return on their invested capital? A. As far as getting any interest on their capital they do not get any.

Q. What do you call it when you make an estimate at the beginning of the year? You estimate that from time to time or at the end of the year or at the end of the month you will have left more money than you started with at the beginning of the period. What do you call that anticipated account? What is your name for it? A. I do not think that matters; call it profit, call it surplus, anything you wish. It is over expenses.

Q. You make so much money no matter what you call it?
A. Yes.

BY THE CHAIRMAN:

Q. You have that word "profit" in your vocabulary?

A. I guess I was trained that way.

BY MR. FILLMORE:

Q. And the net result is that because you distribute this surplus or profit, or whatever you want to call it, to members therefore it is not income and it is not taxable? That is your position, is it not? A. Yes, that is our theory.

BY MR. FRANCIS:

Q. I understand, Mr. Morrison, that your company files income tax return each year? A. That is right.

Q. And has since you have been appointed general manager? A. Yes.

Q. You mentioned to my learned friend certain negotiations had taken place between your company and the Income Tax Department. Has it ever been intimated to you that because of the processing activities which your company has carried on that you were excluded from the provisions of section 4 (p)? A. No, I never heard that until I came to Ottawa yesterday.

MR. PAPKER: You should have stayed away.

THE WITNESS: The question has never been raised.

BY MR. FRANCIS:

Q. You are the only cooperative packing plant in Canada? A. Yes.

Q. And you do the processing you have described in your brief? A. Yes.

Q. My learned friend, Mr. Fillmore, suggested to you that the people had been very unfortunate who had put up their money. Do you know why the farmers of these counties in Ontario put up this money? Why did they put money into this packing venture? A. It is a very heavy livestock production centre.

MR. FILLMORE: That may have been before Mr. Morrison's time.

THE WITNESS: It was before my time.

BY MR. FRANCIS:

Q. Was it an investment or was it to provide processing facilities for themselves? A. It was to provide processing facilities.

Q. You mention in the second last paragraph on page three the advantages of rail grading. Who initiated the rail grading scheme in that district? A. We were the first in Canada to do it. In setting up the contract or agreement with members it was that they would be bought on the dressed weight basis. After a few years the Dominion Government took hold of it and made tests at another plant, but we really blazed the trail.

Q. Is it accepted now by the industry, by producers, as a suitable method of grading? A. That is right.

MR. PARKER: Is that with weights fixed at the point of shipment?

THE WITNESS: Instead of selling live.

MR. FRANCIS: Dead weight instead of live weight.

BY MR. FRANCIS:

Q. As I understand it rail grading is a technical term. That is taking the weights on the dead carcass rather than on the live weight? A. Yes.

Q. In view of the practices that had crept in under the old system? A. Yes.

Q. And your company initiated that scheme? A. Yes.

Q. And that is recognized by producers as an excellent thing for producers? A. Yes.

Q. I have one other question. I refer you to page five, the end of the second last paragraph where it says:

"We, in common with all other eastern packers, at the request of Ottawa handled many carloads of western hogs at our plant."

Does that interfere with your position under 4 (p)?

A. It would to some extent.

BY MR. PARKER:

Q. How is that handled, on a commission basis?

A. No, they are bought outright.

BY MR. FRANCIS:

Q. You took title when the hogs came from western Canada? A. That is right.

Q. You process them and deal with them the same as with your own members' hogs? A. Yes.

Q. But it was non-member business? A. Yes.

BY MR. ELLIOTT:

Q. Were these hogs included in your records for which you got a high standard? A. Yes, they would be.

BY MR. FRANCIS:

Q. Referring to rail grading, is that made compulsory by the Department of Agriculture? A. Yes, it is. The only way the producer can get a grade at all is on the rail.

Q. I think I heard the Minister of Agriculture mention that, and Mr. Milliken called it to my attention. By the way, is there a ceiling on the price you can pay to farmers for hogs? A. No.

Q. Some question arose about fruit yesterday.

A. There is no ceiling on livestock. It is only when you sell it as processed meat.

Q. On page six you refer to the plan you follow in your processing. What, in your opinion, has been the effect of the plan you follow on the price of hogs,

poultry and eggs in the district with which you are acquainted? A. We think we have had a very good steadying influence. We think we have improved the market and have been a steadying influence on our market for hogs particularly, and poultry and eggs.

Q. How many members were present at your last annual meeting? A. Three hundred and fifty.

Q. How much interest do your members take in your organization -- in their organization? I beg your pardon.

MR. PARKER: You almost slipped there.

MR. FRANCIS: I was trained in a different school.

THE WITNESS: They are quite interested, very interested.

MR. FRANCIS: I am under the same handicap as the witness. My early training was in the profit school.

THE CHAIRMAN: You may use the word "profit" yet.

BY MR. FILLMORE:

Q. I have had the advantage of seeing your statement. I should like to ask you what your gross business was in 1944? A. Sales?

Q. Yes. A. Sales were \$2,871,995.69.

Q. Can you tell me offhand what they were in 1940?

THE CHAIRMAN: As far as I know we have not these statements.

BY THE CHAIRMAN:

Q. Have you prepared these statements for the Commission? A. Yes.

THE ASSOCIATE REGISTRAR: There was one set of the financial statements presented which is in the hands of our counsel.

MR. FRANCIS: They were filed.

THE CHAIRMAN: Perhaps you could give Mr. Fillmore

that information.

THE WITNESS: In 1940 they were \$1,640,289.33.

THE CHAIRMAN: These statements will be put before us later?

MR. FRANCIS: They will be filed for the last ten year period.

THE CHAIRMAN: Is there anything further in this case?

BY MR. ELLIOTT:

Q. As I understand it you pay taxes on that proportion of your surplus that non-member business bears to your total business? A. That is right.

Q. Is that surplus gross or net of patronage dividends? Do you count patronage dividends as an expense before computing that surplus? A. I believe that patronage dividends were not taken off.

Q. It was surplus including what you later used as patronage dividends? A. I would like very much to have that statement verified by our auditors when I get back, but it runs in my mind that is true. If that is incorrect I can drop you a line.

BY MR. FILLMORE:

Q. I did not understand they paid patronage dividends to non-members? A. No, to members.

Q. The profit on non-member business would go to members?

MR. ELLIOTT: The witness answers they pay taxes on that proportion of surplus before patronage dividends have been deducted as far as he knows. That is right, is it?

THE WITNESS: That is right.

BY MR. ELLIOTT:

Q. I note on page eight you say you paid patronage

dividends in some years, and in the last two years in the form of an additional increased price on members' live-stock. What is the difference in those two methods of procedure? A. In order to pay a patronage dividend you would wait until the end of the year to see how much surplus you had.

Q. In the last two years you paid the increased price initially? A. Yes. The income tax people -- and I think quite rightly -- say it is just an ordinary profit and loss statement. The other way we can operate at a loss if that should be our policy. We do not want to.

BY MR. PARKER:

Q. Is that where you got the idea to do it that way and you would be safe, from the Income Tax Department?

A. Yes.

BY MR. FILLMORE:

Q. There is one thing we did not get. When are these interim month to month payments of anticipated profits made? You said by instalment but we did not find out when, by what instalment? A. It is set out in our by-law No. 8 how they shall be paid.

Q. Is it a month after delivery of the goods or two months after, how long after? A. It would be paid out next year. It is credited to them immediately.

Q. But not paid until after the end of the year? A. It is on loan from the member.

BY THE CHAIRMAN:

Q. Then this is an allocation at the beginning? A. Yes.

Q. It is an allocation to them which is paid subsequently in the next year? A. That is right.

MR. FILLMORE: It is a loan.

BY THE CHAIRMAN:

Q. It is first an allocation and then a loan?

A. It is an allocation to them; then it is there and we pay it back according to our earnings in the next year.

BY MR. ELLIOTT:

Q. But they cannot collect that from you? An individual cannot come to you and say "I want this now"?

A. No.

BY THE CHAIRMAN:

Q. Is that covered in your by-laws? A. Yes.

Q. Have we copies of your by-laws? A. Yes.

BY MR. VAUGHAN:

Q. In paying that increased price is that increased price paid to non-members as well as members? A. No, just for members.

Q. That is, the price would be different? A. Yes. The non-member would get the same initial price but he would get no more after that. He would not get anything credited.

Q. I thought you had changed your system and were paying a bigger price at the time of the receipt of the hogs. That is what I understood? A. No, we still operate on the same basis with that initial settlement.

Q. I misunderstood that part of it.

BY MR. ARNASON:

Q. Has the percentage of your non-member business done locally remained fairly constant? A. No, it is dropping each year and the percentage of member business is increasing each year.

THE CHAIRMAN: Is that all?

MR. PARKER: That is all.

THE CHAIRMAN: Then do you see any reason why we

should meet earlier in the morning?

MR. PARKER: I do not think so. We have only four of these presentations left, and I think the chances are excellent that two or the organizations will not be here.

THE CHAIRMAN: Possibly we will finish tomorrow?

MR. PARKER: I think we have a chance of finishing tomorrow except for the French one. We may have to meet for a short time on Friday morning to deal with that.

THE CHAIRMAN: The main thing is we do not have to meet at half past nine tomorrow morning?

MR. PARKER: No.

MR. FRANCIS: May I ask what case will be called in the morning?

MR. PARKER: If you are ready we will take the Canadian Co-operative Wool Growers.

THE CHAIRMAN: Is that your case?

MR. FRANCIS: Yes.

The Commission thereupon adjourned until
Thursday, April 12, at 10 a.m.

ROYAL COMMISSION
ON
CO-OPERATIVES

1945

PROCEEDINGS
(OFFICIAL REPORT)

VOLUME No. XVI

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PAGES 5419 - 5501

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ROYAL COMMISSION ON CO-OPERATIVES

Ottawa, Thursday, April 12, 1945

VOLUME XVI

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The Commission appointed to inquire into the present position of Co-operatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Ottawa, Ontario, on Thursday, April 12, 1945.

PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman.

B. N. ARNASON)	
G. A. ELLIOTT)	
J. M. NADEAU)	Commissioners
J. J. VAUGHAN)	

Eugene T. Parker, K.C.

Counsel.

Major H.D.Woods)

Associate

J.A.Chapdelaine)

Registrars

Colonel G. W. Ross

Executive Secretary

APPEARANCES:

W. B. Francis,	Group of Co-operative Associations
W. H. Howard, K.C.,	Private Grain Interests
W. P. Fillmore, K.C.,	Private Grain Interests
R. H. Milliken, K.C.,	Saskatchewan Co-operatives

Ottawa, Ontario,
Thursday, April 12, 1945.

The Commission resumed at 10 a.m.

MR. PARKER: Mr. Chairman, I propose to go on this morning with brief No. 22, the brief of the Canadian Co-operative Wool Growers Limited. Before we go on with that, though, may I say that Mr. W. J. LeClair, a representative of the Canadian Lumbermen's Association, is present with a brief, which he is desirous of submitting as soon as possible. Perhaps Mr. LeClair would speak to the Commission.

MR. LECLAIR: My Lord, I am appearing for the Canadian Lumbermen's Association.

MR. PARKER: In what capacity?

MR. LECLAIR: I am Secretary-Manager of the Canadian Lumbermen's Association, a national body of Canadian lumbermen operating under federal charter. I have with me Mr. D. Kemp Edwards and Mr. Colin Clarke, Directors of the Ontario Retail Lumber Dealers' Association, the largest association of retail lumbermen in Canada. Its name is not specifically mentioned in this brief, but the brief was prepared originally at the request of that Association. My Lord, we are not tax experts, lawyers, or anything like that--we are simply lumbermen--but the Canadian Lumbermen's Association felt we ought to place on record an opinion on the subject of taxation, and therefore we have prepared a short written brief. If you will please accept it we shall not take much time in reading it, and we are prepared to answer any questions that may be asked with regard to the taxation of lumbermen.

THE CHAIRMAN: This brief should not displace others

that are ready to be gone on with.

MR. PARKER: That is quite correct, Mr. Chairman.

THE CHAIRMAN: What do you suggest?

MR. PARKER: I suggest that Mr. LeClair leave the brief with the Registrar. Then if there is an opportunity to deal with it after all the other briefs that are in have been dealt with, I see no objection to having it presented and questions asked in the usual way. But inasmuch as this is the first appearance of a representative of the Canadian Lumbermen's Association, we cannot disturb the right-of-way that other organizations have.

THE CHAIRMAN: Your brief comes very late, Mr. LeClair, and you understand that you must await your turn.

MR. LECLAIR: I appreciate that, sir. We were not aware that the proceedings were drawing so near to a close.

MR. PARKER: A notice has appeared in the public press since some time in January. Did you not see it?

MR. LECLAIR: I apologize, sir, but I did not.

MR. PARKER: Mr. Chairman, it may be possible to deal with this brief later to-day. I would ask Mr. LeClair to file ten copies with the Registrar.

We are ready to proceed with the brief of the Canadian Co-operative Wool Growers Limited.

MR. FRANCIS: Mr. Chairman and Commissioners, I am appearing for the Canadian Co-operative Wool Growers Limited. First of all I should like to have two or three minor corrections made in the brief, if I may. On page 1, in the second line, the words "unique as" should be deleted. On the same page, in the third last line from the bottom, the word "almost" should be inserted before the word "all". On page 5, in the

first sentence of the paragraph headed "Present position as to taxation", all the words after "Income War Tax Act" to the end of the sentence should be deleted, and the following inserted: "and referred to in section 7 (a) of the Excess Profits Tax Act." Then on page 6, in the second line, after the word "recommendations" the following should be inserted: "(a), (b) and (c)".

As to the Ontario Co-operative Union's recommendation (d), which refers to credit unions, I should like to have it on record that the Canadian Co-operative Wool Growers Limited do not oppose that recommendation; they simply do not make any specific reference to it.

GEORGE E. O'BRIEN

General Manager,
Canadian Co-operative Wool
Growers Limited,
having been duly sworn
testified as follows:

BY MR. FRANCIS:

Q. Mr. O'Brien, I understand that you are the General Manager of the Canadian Co-operative Wool Growers Limited. A. I am.

Q. And that you have held that position for about twenty-five years? A. Yes.

Q. And that the brief which you are now about to read or the submission that you are about to make has been approved by the members of the Board, and that you are authorized to present it? A. Correct.

Q. Will you proceed, Mr. O'Brien, to read the brief?
A. Mr. Chairman, this is the brief of the Canadian Co-operative Wool Growers Limited:

"INTRODUCTION

1. The Canadian Co-operative Wool Growers Limited, as a marketing co-operative, is a Dominion-wide organization. Operating in all provinces of Canada, it has substituted orderly marketing of wool for the chaotic conditions that existed previous to the first world war. At that time the wool was sold mostly to buyers who travelled throughout the country or to local dealers who had neither the facilities nor the ability to grade the wool. The inevitable result was low prices, and, as stated in a Department of Agriculture pamphlet issued at the time, careless preparation, the inclusion of dirt and much other extraneous material, which increased the cost of manufacture.....

2. ORGANIZATION

Dissatisfaction with the prevailing conditions in the marketing of wool prompted the Dominion Department of Agriculture and many of the Provincial Departments of Agriculture to attempt to bring about improvements in the quality of the wool marketed and of the returns to the wool growers. At the instigation of the Commissioner and officers of the Live Stock Branch of the Dominion Department of Agriculture, a general conference of Dominion Sheep Raisers was held on February 5, 1918, at the Dominion Government Wool Warehouse, 128 Simcoe Street, Toronto. The people attending the conference were sheep breeders and wool growers from all the provinces of Canada, and after a four-day conference the organization of the Canadian Co-operative Wool Growers Limited was authorized. The conference adopted tentative draft by-laws and authorized an application for Letters Patent under the Dominion

Companies Act, incorporating a company to be known under the name of 'Canadian Co-operative Wool Growers, Limited.'

The Letters Patent provide for an authorized capital of \$200,000 divided into 20,000 shares of \$10 each. Of this sum approximately \$120,000 has been issued and almost all of this stock is held by wool growers, sheep breeders and wool growers associations. A limit is placed on the number of shares that may be held by any one shareholder.

Interest on shares is limited by the Letters Patent to 8%, and the usual rate paid varies between 4% and 6%. The control of the Co-operative is vested in a board of fifteen directors elected by the shareholders by delegate voting so that there is at least one director from every province having a shareholder. Each shareholder has but one vote regardless of the number of shares held.

The head office of the Co-operative is located at Toronto, and it has branches at Lennoxville, Quebec, and Regina, Saskatchewan, and grading warehouses at Weston, Ontario, Carleton Place, Ontario, Lennoxville, Québec, Antigonish, Nova Scotia and Truro, Nova Scotia. The branches and warehouses function as assembling and grading stations for wool supplied to them direct from the growers or from growers' associations which have been established, where practical, throughout the country to operate as depots for growers in their area. Through this process more than 20,000 wool growers now market their wool through the Co-operative. It is the growers' own selling agency handling their wool on a strictly co-operative basis.

The affiliated associations differ considerably in character, size and function, and are independent of the central organization. Generally they are associations

without share capital incorporated under the provincial Agriculture Associations Acts. Their expenses are covered by a small poundage charge against the wool collected and by earnings derived by the sale of supplies to members.

3. BUSINESS METHODS AND OPERATIONS

The Canadian Co-operative Wool Growers Limited in assembling the clip, have kept in mind two factors which are important. First, that part of the wool must move eastwards, either to home or foreign markets, and, secondly, that there are differences in the quality of the wool in various parts of the Dominion. In placing the branches or the assembly depots, the object has been to reduce transport costs and to facilitate the task of grading, by providing separate assembly points for areas where the wool falls into the same category.

The affiliated associations are responsible for dispatching the wool in carload lots to the grading depots, or other points within Canada, specified by the Co-operative. The essential function of the Canadian Co-operative Wool Growers Limited is to grade and sell the wool with a view to securing maximum rates to the suppliers.

The Canadian Co-operative Wool Growers, Limited, since its incorporation, has taken pains to develop the English market for wool, and is now well and definitely established in the British wool trade. Since the beginning of the present war the Co-operative has exercised much influence on the production of Wool for Victory and some of its officers now serve on the board of the Government-owned company named the Canadian Wool Board Limited.

4. METHOD OF FINANCING

The bulk of the wool is received by the Co-operative

during the months of May, June and July in each year, and in order to finance the huge quantity of wool passing through the warehouses in any one year, it is necessary to obtain seasonal bank loans which usually are more than \$500,000 each year. The growers and the affiliated associations are paid a cash advance upon delivery of the wool to the warehouses, which advance is usually about two-thirds of the estimated value of the wool. The Co-operative does not obtain title to the wool but handles it merely as the agent of the growers, and the cash advance is a payment on account of the price the growers will ultimately receive. The wool is then graded, stored and sold. When a minimum of 80% in any particular type has been disposed of the Co-operative remits to the growers who have supplies that particular type of wool a final payment for the wool supplied by them on the assumption that the remaining 20% will yield on selling it the average price obtained for the 80% that has been sold. The Co-operative absorbs any loss that results should the 20% not yield the average price for what has been previously sold, and similarly, should this 20% yield more than the average price, the difference will show as a surplus at the year end. In making the final payment to the growers, the Co-operative deducts from the selling price its estimated charges for handling the wool. (These rates are now fixed by Canadian Wool Board Limited for duration of the War and one clip year thereafter.)

Out of such income the Co-operative pays all the usual operating costs and distributes the net income after the deduction of such costs in accordance with the provisions of the Letters Patent, supplementary Letters Patent

and its by-laws. These provide that the directors may so conduct the affairs of the company as to provide, if possible, for an annual dividend up to 8% on the paid-up capital of the Co-operative, and that the directors may set aside from year to year such reserve funds as they may deem necessary in the interests of the company. In practice, after payment of the dividend, which has usually been at the bank loan rates, the remainder of the net earnings are divided at the discretion of the directors between three different reserve accounts, each kept for a specific purpose.

The "Contingency Reserve" which at present amounts to \$199,230.86, is a fund set aside to protect the Co-operative against any loss that may result from the price of wool falling below the original cash advance made to the growers. The price of wool is determined largely by foreign markets and fluctuates to such an extent that the wool handled by the company may decrease in value as much as \$250,000 in the space of about a month. On two occasions the price has fallen below the amount of the cash advance to the growers. On the first of these occasions the Co-operative had to ask the growers to refund part of the cash advance; on the other occasion, it made up the deficiency by transferring money from other accounts and showed a substantial loss for the year. To guard against this happening in the future, the Contingency Reserve has been set up, and it is the intention of the directors to keep this reserve at its present figure without making any further additions to it unless a loss is suffered which depletes the reserve. The by-laws provide that this reserve is the property of the Co-operative but also provide that on any winding up

of the Co-operative the Contingency Reserve, after any losses on growers' cash advances or wool sales, shall be distributed among the patrons of the Co-operative doing business with it during the last year in which it carries on business, and that such distribution is to be made in proportion to the volume of business done in such year.

The 'General Reserve,' which amounts to \$119,120, is, as its name implies, a general reserve similar to that carried by ordinary commercial companies to protect the Co-operative against unforeseen losses in the selling of the product, including losses on bad or doubtful accounts.

In addition to these two reserves the Co-operative carries a 'Growers' Reserve' account, to which is credited each year a portion of the operating surplus, and this amount is allocated to the patrons of the Co-operative on the basis of the quantity and grade of wool delivered to it. The amounts credited in this account to growers' associations are paid out in the year in which they are credited, while the amounts credited to individual growers are retained until they are equivalent to 1¢ a lb. on the wool delivered to the Co-operative when they are remitted to the growers.

5. PRESENT POSITION AS TO TAXATION

The Co-operative has not since 1930 paid any income taxes or excess profits taxes as it comes within the exemption contained in section 4 (p) of the Income War Tax Act and referred to in section 7 (a) of the Excess Profits Tax Act. The company's auditors are the well-known firm of Clarkson, Gordon, Dilworth and Nash, and under date of March 25, 1931, they advised the Co-operative as follows:-

'As at 28th February, 1930, a Reserve of \$3,030.34 had been set up to cover Dominion income taxes, expected to have been paid by your Company for the fiscal years ending 28th February, 1929, and 28th February, 1930, but amendments to the Income War Tax Act, passed by the Dominion Government in May, 1930, relieved your Company from payment of income taxes from and after the 28th February, 1928. The Reserve of \$3,034.34, which appeared in your Balance Sheet of 28th February, 1930, is accordingly no longer required to pay Dominion income taxes, and the amount thereof has been transferred to the "Reserve for Doubtful Accounts Receivable." The 1930 amendments to the Income War Tax Act provide substantially that the income of farmers, live stock men, and other like co-operative companies and associations organized and operated on a co-operative basis, are exempted from payment of income tax, provided: the value of the produce marketed for non-members of the company or association, does not exceed 20 per cent of the value of the produce marketed for members or shareholders.'

6.

RECOMMENDATIONS

The Canadian Co-operative Wool Growers Limited concurs in the recommendations (a), (b) and (c) made to this Commission by the Ontario Co-operative Union, and submits more specifically that as it merely is the agent of its members in marketing their produce, and it does such marketing on a strict agency basis, the receipts from the sales of its produce do not constitute income in its hands.

All of which is respectfully submitted."

BY MR. PARKER:

Q. Mr. O'Brien, it is very gratifying to me to have a Nova Scotian in the witness box. A. Fair enough.

Q. I think that we might have a short discussion of this document that you have just read. First, I would just like you to refer again to the membership of the company. I understand it has one type of members who are individual growers, or are the members all local associations? A. There are certain sections of Canada where there are no affiliated associations, as we call them. In Ontario that is true, and in New Brunswick that is true. There the individual growers ship their wool directly to the Canadian Co-operative. The same is true in Nova Scotia. In all other parts of Canada they ship through a local association, which association in turn ships to us.

Q. Approximately how many of what we may call individual members has the association? A. At the moment about twelve thousand.

Q. How many association members have you, roughly? A. Ten or twelve.

Q. Do all the individual members each hold at least one share of the company? A. No.

Q. On what basis do they become members? What qualifies an individual to be a member of your association? A. The fact that they ship us their wool.

Q. They are not required to buy a share? A. No.

Q. They are not required to sign any formal application to become a member? A. Not now, no.

Q. Has that been so for some time? A. At one time we did put in a contract. The purpose of the contract was not to keep the grower in, but rather to

keep our company in periods of a low wool market from being flooded with wool that ordinarily did not come to us.

Q. It was a contract designed to limit your membership rather than to increase it? A. Yes.

Q. And that has been abandoned in recent years?

A. Yes.

Q. Approximately at what time did you abandon that practice? A. The contract was a five-year contract, made somewhere about 1930, when wool prices dropped, and when the five years were up no more attention was paid to it.

Q. It just died? A. Yes.

Q. Do I understand that at the present time none of the twelve thousand individual members have a share?

A. Oh, yes, some of them have, but a very small number. I might add right here that we can offer no inducement to any shipper to become a shareholder; there is no advantage in it.

Q. A man who has a share gets no better treatment from the company than a man who has no share? A. That is correct.

Q. And is that true when you come to the distribution of patronage dividends, if you have that kind of thing?

A. It is the shippers of wool who benefit. The shareholders have no advantage.

Q. You make no distinction between a shareholder and a non-shareholder? In other words, you make no distinction between a member of your company and a non-member? A. That is right.

Q. Has that always been so? A. Yes.

Q. On that point I draw your attention to the last page of your brief, to the letter from your auditors

which you quote.

MR. VAUGHAN: When you say there is no distinction, you mean apart from the dividends? A shareholder gets interest?

MR. PARKER: Oh, yes, that is correct.

BY MR. PARKER:

Q. On page 5 of your brief you quote a letter from your auditors, in which they say:

"The 1930 amendments to the Income War Tax Act provide substantially that the income of farmers, live stock men, and other like co-operative companies and associations organized and operated on a co-operative basis, are exempted from payment of income tax, provided: the value of the produce marketed for non-members of the company or association, does not exceed 20 per cent of the value of the produce marketed for members or shareholders."

You are familiar with that? A. Yes.

Q. I do not understand how your company can qualify under that proviso. Do I understand that less than 20 per cent of your wool comes from those twelve thousand members and 80 per cent or more from members who hold shares? A. No. The twelve thousand shippers are members with us.

Q. They are members merely in the sense that you handle their wool? They are not members in any other sense? A. Yes.

Q. What other qualification do they have, except that they deliver their wool to you? I might explain to you that we have had this question of membership before the Commission many times. In numerous instances every one of the central organization's members, whether

an individual or an association, has had to go through the formality of applying for membership and paying a fee or buying a share of stock or something of that kind; but there are other organizations which have no such formality, and which make no distinction between a member and a non-member. A. It has been the policy through the twenty-seven years that each man who ships his wool to the Canadian Co-operative is a member of the Canadian Co-operative; and that has been established throughout the Departments of Agriculture and the Agricultural Colleges. You will find that is current from coast to coast.

BY MR. ELLIOTT:

Q. Do all who ship to you have the right to vote on the election of your officers? A. No. The major wool growing section now is in Western Canada, and all the associations are shareholders with us. That also is true of the Ontario sheep breeders. I would hesitate to say definitely, but I would think that if we included the association shareholders they would come practically within the 80 per cent.

BY MR. ARNASON:

Q. Do your shippers sign any application forms? A. Yes, for marketing their wool. They simply say, "I intend to ship my wool to you." It is a wool sale application form.

Q. But that does not give them the right to vote? A. No, except through their associations. The associations in every province shipping us wool are shareholders of the Canadian Co-operative, including the Ontario Sheep Breeders' Association. The reason the Ontario Sheep Breeders' Association do not assemble wool,

as the Southern Alberta Sheep Breeders do, is that our organization is situated right in the centre of Ontario, at Carleton Place and Weston, and there is no particular object in the Sheep Breeders' Association setting up a duplicate organization. They are substantial shareholders, to the extent of \$5,000.

BY THE CHAIRMAN:

Q. You regard as a member anyone who ships wool to you? A. Yes.

BY MR. ARNASON:

Q. Has that been the policy since 1918? A. Yes. As indicated in the brief, we took over from the Dominion Government Wool Warehouse in February, 1918, to which warehouse every wool grower was entitled to ship his wool, if he wanted to, on a graded basis.

BY MR. PARKER:

Q. You say that the association members are all shareholders? A. Yes.

Q. In varying amounts, I suppose? A. Yes.

Q. Is the number of the shares they hold regulated in proportion to the quantity of wool they ship, or to the capital they have in the local association, or on what basis? A. Usually they are purchased on a poundage basis. Apart from the time the company was started, the additions to the shares have chiefly been at some small fractional rate per pound.

Q. Their shareholdings are increasing as the years go by? A. Yes.

Q. By reason of this fraction of a cent of hold-back, is that so? A. Yes.

Q. Let me come back to the individual wool growers. Does the Canadian Co-operative buy the wool when it comes

in, or what is the relationship between the central organization and the individual member? A. It is handled on a consignment basis.

Q. Is there any kind of contract or letter exchanged between you to show that? Where are the terms on which the wool is received and handled to be found? Where do we look for them? A. Ordinarily we send a wool sale application to these people, but in many instances they just up and ship the wool.

Q. Have you got a sample of the so-called application? A. No, I am sorry.

Q. What is it, in a word? A. This wool sale application says, "I agree to ship my 1945 clip to the Canadian Co-operative wool growers, and I will require certain supplies, which please ship to me." That is the gist of it.

Q. May I put it this way: the application is a sort of double-barrelled affair, which says that the member will ship his wool to the Canadian Co-operative, and specifies certain supplies that the Co-operative is to send to him; and the accounts for these two transactions are to be adjusted by you? Is that a fair way of putting it?

A. Yes. Also in normal times the member says, "I request a cash advance against my wool," or "I do not request a cash advance," as the case may be.

BY THE CHAIRMAN:

Q. When is that cash advance made? A. In the case of individuals as soon as their wool arrives at the grading warehouse and is graded. In the case of the associations who are shipping carload lots, the cash advance is made at the point of shipment, and then the wool comes in and is graded, because if we waited until it was graded it would

sometimes be fall before the man would get a cash advance.

BY MR. PARKER:

Q. Is there a similar letter or application comes from the association, or is there a regular form?

A. At the same time that this individual contract was put in, there was a contract put in with the associations.

Q. And that to all intents and purposes, I assume, is still in effect. Have you a copy of that? A. No.

Q. Could you supply the Commission with a copy? A. Yes.

Q. Possibly you could also get a copy of those old individual applications? A. I think so.

Q. I ask for that because perhaps it is a little irregular for you to be attempting to state the substance of written documents.

BY THE CHAIRMAN:

Q. What form of acknowledgment does the grower get to the order that he places with you? Do you write him in reply, or is there a printed form? A. If he does not order any supplies we do not say anything, but if he orders any supplies we send them out and a postcard is mailed to the grower saying what supplies are going out. And on arrival of his wool a formal acknowledgment of arrival is sent out, saying "Your wool arrived to-day and will be graded as quickly as possible", because all the wool cannot be graded at once.

BY MR. PARKER:

Q. This may be a legal question or a quasi legal question that I am about to ask you, with regard to the system between the company and its individual members, on one hand, and its association members on the other hand.

Does the Canadian Co-operative buy any wool from its association members or from its individual members?

A. No.

Q. Does it sell those members any supplies? A. Yes.

Q. On what terms does it sell supplies to its members? A. Both on credit against wool receipts, and for cash.

Q. So there will be no misunderstanding between you and me about this, let us make it clear. You really mean that you sell supplies? You do not deliver them on a consignment basis or on any basis other than that of a straight sale? A. That is correct, but as in everything else there are some exceptions. In the case of certain associations in Western Canada who have no funds--they are organized under the Agricultural Societies Act--we might send them up to \$1,000 worth of supplies on consignment for their members.

Q. But as a rule you sell outright? A. Yes.

Q. At a fixed price? A. Yes.

Q. Either on cash or on credit, I suppose, depending upon the member's credit status? A. That is correct.

Q. In the keeping of your accounts do you keep separate accounts for the supplies that you deliver or sell to your members and for the wool that you receive from them and dispose of, or is the whole thing all put together and a balance sheet produced for the company's entire operations?

A. I should say there was a reasonably clear separation between the sale of supplies and the other branch.

Q. That is, you could go to your books at any time in any year and calculate with accuracy whether you had operated the supply branch profitably or otherwise?

A. That is right.

Q. As a rule has that branch been operated at a profit? A. Yes, at a very small one.

Q. I am not particularly interested in the size of it. The point is that in so far as the supplies are concerned you are carrying on an ordinary commercial business, as if you had an ordinary joint stock company, modified as you have stated, and you carry it on with a view to making a profit? A. Not with regard to supplies, no. We attempt to distribute these supplies at cost.

BY THE CHAIRMAN:

Q. You do not actually distribute them at cost, do you? A. We try to come out on the right side, naturally.

BY MR. PARKER:

Q. Your fixed intention is to have a profit, even though it be small? A. No. Our fixed intention when we took over was to distribute a line of stock and supplies to the sheep breeders of Canada that would do a job, and to that end we took over the agency of an English firm, Cooper, McDougall and Robertson, distributors of these supplies to sheep breeders all over the world. We took over that agency so that the sheep breeders of this country would get efficient products that would do a job.

Q. At any rate, this can be said about your system of operation, can it not, that at the end of the year if you have made a profit on this supplies branch, small though that profit may be, you do not pay that back to the trade, you do not treat it as a discount or as a rebate to which the trade is entitled? A. The profit

on these supplies?

Q. Yes. You keep it? A. Yes.

Q. You do not pay it back to the sheep breeders?

A. No.

BY MR. ELLIOTT:

Q. Do most of the shippers buy their supplies from you or do some of them buy elsewhere? A. They most of them buy either through the associations or through the trade centres. In some cases in smaller communities these goods will be distributed by the trade.

Q. So there is no necessary correspondence between the size of an individual's shipment of wool to you and the quantity of supplies he buys from you? A. Not necessarily.

Q. Is that generally true? A. Well, one of our main sale products is a dip, a powder dip for curing ticks and controlling mange, and of course the larger the ranch the greater the quantity of dip that will be required. A case of dip is good for only so many sheep, and the more sheep a rancher has the more dip he buys.

BY MR. VAUGHAN:

Q. Do I understand that these supplies go only to your own members? You would not send them to anybody who might write in? A. They go only to our own members except in districts where there is very little sheep ranching, and there we distribute the supplies through the ordinary trade. For example, there is a firm in Guelph, Ontario, that we send our supplies through.

Q. Does that obtain to any large extent? A. No; the major business is to the ordinary shipper.

Q. What would be the percentage? A. I would not

know, Mr. Vaughan, the percentage on that. Either wisely or unwisely, some years ago we decided to distribute in that way as well as directly to our members. If you know your Ontario farmer and your Quebec farmer, you know that when he decides to dip his sheep he will not write a post-card to order the dip. He wants to get it right away, and if he can get it at a local store he will go there for it; but we found that if he cannot get his dip in that way he will not dip his sheep.

Q. Are you in any way obligated by the Government to provide these supplies to anybody who wants them? A. No.

BY MR. PARKER:

Q. Deliveries of these supplies in which you deal are not restricted to your member associations and to the twelve thousand individuals who send you wool? You will sell them to the small country storekeeper, if he is in need of them, and to the individual farmer, if he needs them, whether he sends you his wool or not? A. That is right. But inasmuch as we handle some 64 to 65 per cent of the wool clip, it is a fair assumption that by far the major proportion of the sheep supplies that we distribute in that way must go back to these people who ship to us.

BY MR. NADEAU:

Q. When you sell to the general trade, do you sell at cost? A. Yes, we consider it cost; that is, our cost plus 10 or 15 per cent, which is the cost of handling.

Q. Do you manufacture any supplies at all? A. No.

Q. When you act as agents for a manufacturer of supplies or an agency, on what terms do you pay those people? A. In the case of the firm I have named,

Cooper, McDougall and Robertson, we took the agency for Canada for their products, and they supply them at prices which we agree to pay for them; and at times they have agreed to spend some money to advertise their products--that was before the war. Other than that, there are no general terms.

Q. Do you make a profit out of that trade with the manufacturers for whom you are agents? A. Do we make money for the manufacturer or for us?

Q. For your association. A. No. We attempt to distribute these goods as near to cost as we can get. The distribution of supplies is not a part of our business, other than as a service. We are in the wool marketing business.

BY MR. ELLIOTT:

Q. Do you sell to the ordinary trade on the same terms as you sell to your association members? A. Yes.

BY THE CHAIRMAN:

Q. How wide is your distribution through the ordinary country store? Any storekeeper who wants supplies that you handle may get them from you, is that right? A. No. We limit deliveries to the sections where the sheep industry is, and usually to a certain store in the district, a store that will cover the district and to which we can refer people who want to get these goods.

BY MR. ARNASON:

Q. Do you make it a practice to sell supplies through stores in districts where you have affiliated associations? A. No. By and large, the associations buy the supplies, because they have close contact with the individual shippers. I mean associations like the Southern

Saskatchewan Wool Growers, at Maple Creek, the Southern Alberta Sheep Breeders Limited, at Lethbridge, the British Columbia Sheep Breeders' Association, at Kamloops, and the Alberta Live Stock Association at Calgary and Edmonton. They have contact with the ranchers and shippers.

Q. The distribution through ordinary trade channels is therefore for the benefit of your shippers who are not organized into associations? A. That is correct.

BY MR. VAUGHAN:

Q. Mr. O'Brien, you think that eventually those supplies get to your shippers, do you? A. Yes.

Q. Largely? A. Yes.

BY MR. PALMER:

Q. Mr. O'Brien, will you turn to the bottom of page 3 and the top of page 4 of your brief? When 80 per cent of the wool is sold you make a partial settlement on what basis? A. We make a full settlement then. We first make a cash advance when the wool is received, and when 80 per cent is disposed of we make what we consider a full payment.

Q. There has to be a final payment after that?

A. There is no final payment. There may be a small distribution at the end, a fractional distribution, because we come fairly close.

Q. You deduct for the services of the Canadian Co-operative Wool Growers Limited certain fees with the idea of merely defraying the out-of-pocket expenses and having a small margin of profit for the company? A. I would call it a margin of safety.

Q. That is what you would call it? A. Yes.

Q. I would suggest to you that it would be more

appropriate if you called it a small margin of profit. Would you agree with that? A. No, I would not.

Q. Call it a margin of safety, then. We will assume that you have a margin, whether it is a margin of profit or a margin of safety. At any rate, it is a margin, and it represents good money, does it not? Whose money is that? Does it belong to the association or to the members? A. The members. We are acting as agents for the members.

Q. When do they get it, and how? A. I do not quite understand you.

Q. When do they get this margin? If it is their money, when do they get hold of it, and how? A. There are certain rebates made to them at the end of the year.

Q. What are those rebates? A. Out of any surplus that there is at the end of the year they may vote a quarter of a cent a pound or a tenth of a cent a pound. It is bound to be small.

Q. I am not interested in the size. There is a margin of safety, as you call it--we will leave out the "safety" and call it simply a margin. The margin is in your possession, but you say it belongs to the members and not to the Canadian Co-operative Wool Growers Limited. I want you to explain how, when and through what means the members get that margin, if they ever get it. A. Part of it they get on the rebate at the end of the year.

Q. Rebate on what? A. On the quantity of wool they ship. Last year they got a quarter of a cent a pound, for example. In years gone by it has been varying amounts, for twenty-odd years.

Q. That applies to the association members as well as

to the individuals? A. Yes.

BY THE CHAIRMAN:

Q. After you pay interest to your shareholders and pay the expenses of management, you have available a rebate or fractional dividend to the wool grower who has dealt with you that year? A. Yes.

Q. Is there anything left beyond that? A. Yes, we deduct the necessary reserves.

Q. That is where your reserves come from, the difference between those combined amounts and your total margin of safety, as you call it.

BY MR. PARKER:

Q. We are getting pretty near to the question of reserves, so let us go right into it. After having disposed of this wool and paid for it in part, as you have indicated, you still have in your possession substantial sums, out of which you deduct your own costs and disbursements. Then you set aside, I understand, three types of reserves out of that money? A. Yes.

Q. The first one is what? A. The Contingency Reserve.

Q. Just what is that for and on what basis is it calculated? How much do you set aside annually for that Contingency Reserve? That reserve which you now hold amounts to what? A. \$129,000.

Q. Which you consider adequate for the present business? A. Yes.

Q. And for working capital you have what you received from the sale of shares? A. Yes, \$120,000.

Q. These two amounts total \$320,000. The next reserve is what? A. The General Reserve.

Q. What is that for? A. As described in the brief, it is similar to a general reserve carried by ordinary commercial companies.

Q. What is the fundamental difference between the General Reserve and Contingency Reserve? A. The Contingency Reserve was first known as the Growers' Contingency Reserve.

Q. What does that mean? A. That meant that it belonged to the growers, but was unallocated.

Q. Does it still mean that? A. That is exactly what it means. On the suggestion of our auditors the name of that Growers' Contingency Reserve was changed a year ago to Contingency Reserve.

Q. It used to be carried on your book as Growers' Contingency Reserve? A. Yes. We also had a Growers' Rebate Reserve, and it was confusing.

Q. Let us find out whose money that \$199,000 is. Is it the Canadian Co-operative Wool Growers' money or the members' money? A. It is the members' money.

Q. On what terms can they get it, and in what proportions do they share it? If a member comes in and says, "I want my share of that \$199,000"--I don't care whether it is only two cents--on what terms does he get it? A. In theory he is entitled to it, but in fact he cannot get it, it is impossible.

Q. In theory he is entitled to it, but in fact he cannot get it, it is impossible.

Q. In theory he is entitled to it, but in fact he is not? That is the situation? A. Yes.

Q. In theory it is the members' money, but in fact it is the Canadian Co-operative Wool Growers' money?

A. No, it is the members' money.

Q. You mean if the company is wound up or liquidated? A. We do not always operate on this margin. There are years when the margin is minus. Without going back too far, I recall that in 1937 on our cash advances alone we wound up with some \$140,000 to \$150,000 short.

Q. You dipped into this Contingency Reserve then to make it up? A. Yes. That is what a Contingency Reserve is for.

Q. But regardless of whether it grows or shrinks, while it stands there I want to know who is the owner of it. Whose is it at any given time? A. It is the members'.

Q. But it is there, as I understand you, to be used if occasion requires in years when you have a loss? A. Yes.

Q. And it is always there to their credit? A. Yes.

Q. And on winding up of the Co-operative Contingency Reserve would be distributed? A. Yes.

Q. Suppose the company wound up and went out of business to-morrow, on what basis would this \$199,000 be divided? A. It would be divided on a pro rata basis, according to the pounds of wool shipped in 1944.

Q. Divided among all shippers? A. Yes.

Q. Whether they held a share in the company or not? A. Yes.

Q. No distinction would be made? A. That is right.

Q. All shippers during the last year in which the Co-operative carried on business? A. That is right.

Q. Notwithstanding that hundreds and thousands of shippers may have contributed to that fund in previous years, they would not share in it if it so happened that

they did not ship in 1944? A. That is right.

Q. Now let us come to the General Reserve.
At the present time that stands at roughly how much?

A. I think it is \$115,000.

Q. What is that fund used for, and whose is it?
Just tell us the whole story. Tell us how you built it up, whether from hold-backs and what not, and what it is used for. A. In the brief we say it is "a general reserve similar to that carried by ordinary commercial companies to protect the Co-operative against unforeseen losses in the selling of the product, including losses on bad or doubtful accounts."

Q. Whose money is that? Is it the members' or the company's money? A. That, Mr. Parker, I cannot answer. I can only give you the theory and the belief and the policy of our organization. According to that belief and in my opinion it is the property of the members, and that each shareholder is only interested in the \$10 investment that he has. The rate of interest paid on that investment for years has been the same rate as we have paid to the Bank of Montreal on our loan in the summer. The price of the shares, irrespective of the reserve, has always been \$10. It was \$10 in 1918, when we were organized, and any man who is a sheep breeder to-day can buy a share at the same price. Our general conception is that if the Canadian Co-operative Wool Growers Limited were wound up, after each shareholder was reimbursed the \$10 the rest would belong to the shippers, and the only practical way of distributing it would be to the last season's shippers.

Q. You are pretty familiar with the way a general reserve is set up in an ordinary joint stock company?

A. Yes.

Q. The general reserve is for the use of the company to carry on its business, and if there is a winding up the reserve is distributed to the shareholders? A. Yes.

Q. But in this case you would distribute it to the shippers of wool? A. No Co-operative could live through a period of ten years without some reserve.

Q. You might wind up in circumstances where there would be no reserve? A. Yes. If it had no reserve, the Co-operative would wind up anyway.

Q. It would probably wind up before it got that low. You have a third reserve. What is that? A. That is the Growers' Rebate Reserve. Those are the amounts that we pay back to the growers year by year.

Q. By the way, what is the amount of the General Reserve? Did I ask you that before? A. Yes. I said I thought it was \$115,000, but I see from the brief it is \$119,000.

Q. So for financing purposes the Co-operative has cash from three sources: the sale of its shares, the Contingency Reserve and the General Reserve. It also has the use of the Growers' Reserve until such time as it is paid out? A. Yes.

Q. How else does the Co-operative finance itself?
A. Bank loans.

Q. Seasonal? A. Yes.

Q. I notice you say in your brief that your charges for handling the wool are fixed by Government authority.
A. Yes, they are now fixed by the Canadian Wool Board Limited.

Q. You handle wool for the Government now?

A. Yes.

Q. And the Government pays you something?

A. A commission.

Q. That would be so much per pound, or on some other basis, I presume. Is that profitable to the Co-operative, or does it do any more than defray your actual out-of-pocket expenses in handling the wool? Does it leave a margin of safety, as you call it, for you?

A. It leaves a margin, a small margin, a reasonable margin, yes.

Q. Like any other company, you are not expected to work for nothing. These charges are fixed on a basis which you both believe, at any rate, will give you a reasonable margin? A. Yes.

Q. And in practice it has worked out that way?

A. Yes.

Q. Does the company make a margin on any other type of business that I have not mentioned? There is a margin on its dealings in supplies and a margin on its handling of wool. Is there any other source? A. No, sir.

Q. For instance, has the company invested any of these reserves in Victory Bonds, or anything else?

A. Yes.

Q. Quite a substantial amount? A. Yes, \$200,000.

Q. I suppose the Victory Bonds that you get are like those that the rest of us get--what few we can get--in that they pay 3 per cent interest? A. One and three-quarters per cent on some.

Q. But 3 per cent on some? A. That is right.

Q. That income on \$200,000, which can be calculated

by a matter of pure arithmetic, is quite a little sum, which makes another margin of safety for the company?

A. It is income.

Q. It is a source of profit to the company?

A. It is more than offset by the interest which we pay to the bank.

Q. I am not particularly interested in that. The point is that you get the income. A. We get the interest on the bonds.

Q. And that belongs to the company, or does it belong to somebody else? A. It goes into the revenue of the company, the same as the commissions on wool.

BY THE CHAIRMAN:

Q. In the event of a winding up how would you reconcile the interest of your shareholders and that of your members in the general surplus? A. We would think that if the shareholder got his original \$10 back that is all he would be entitled to, that is all his interest. He is limited to interest rates on \$10. He can buy shares at \$10 and he can only get \$10 for them when he sells them, so that continues to be his only interest.

Q. You would not consider he had any rights in the reserves? A. I would not, no.

BY MR. VAUGHAN:

Q. As to the Contingency Reserve, you said that in the event of a winding up it would go to the shippers of the last year in which the Co-operative operated? A. Yes, or the last known shippers.

Q. Is there any agreement with the shippers authorizing that to be done? That is, do shippers of previous years relinquish any rights to the reserve

and allow it to go to the shippers of the last year?

A. None other than through their delegates, who passed a by-law to that effect.

BY MR. PARKER:

Q. Mr. O'Brien, on page 5 of your brief you refer to the Co-operative's present position as to taxation. Prior to 1930 this Co-operative paid income tax?

A. Yes.

Q. On what part of its business? Can you tell me how you arrived at the income on which income tax was paid prior to 1930? A. I would expect on the net surplus showing at the end of the year.

Q. That is, the amount put into these reserves, or would they be deducted as operating expenses before you arrived at the income for taxation purposes, do you know?

A. I am sorry I cannot answer. I know we paid Dominion income taxes up to 1930.

Q. Was it a substantial amount? I do not want to go into your private affairs. A. It would range from \$1,000 to \$3,000 or \$4,000, as indicated in the auditor's letter. They say there that a reserve of \$3,000 had been set up to cover Dominion income taxes expected to have been paid for the fiscal years ending February 28, 1929 and February 28, 1930. That would be about \$1,500 a year for those two years.

Q. You assume that that was about what you had been paying? A. Yes.

Q. It must have been calculated on a fairly small taxable income?

MR. VAUGHAN: The rates were very low then, Mr. Parker.

MR. PARKER: Yes, that is true.

BY MR. PARKER:

Q. At the moment you cannot tell us on what items of your revenue that was calculated? A. No.

Q. Could you send a statement about that to the Commission? Have you any objection to that? A. No.

Q. That information about your affairs would not be disclosed to the public. Of course, if the Commission will say right now that they do not want to see the statement, all right.

BY THE CHAIRMAN:

Q. Were your dividends deducted for income tax purposes then? A. Yes.

BY MR. PARKER:

Q. As an operating expense? A. Yes.

Q. I come now to the recommendations on page 6 of your brief. You say, "The Canadian Co-operative Wool Growers Limited concurs in recommendations (a), (b) and (c) made to this Commission by the Ontario Co-operative Union." Do you recall what those recommendations are? I was just wondering how many of the people for whom you are speaking here to-day know what are recommendations (a), (b) and (c), in which you say you concur. A. How many of what people?

Q. How many of the twelve thousand people whom you are representing here. How many of them know what recommendations (a), (b) and (c) are? A. It is part of the system, the general benefits of co-operative marketing.

Q. Do you know what recommendations (a), (b) and (c) are? A. Roughly.

Q. What are they? What is (a)? A. One asks for a proper definition of what a true co-operative is.

Q. That is right. What is (b)? A. It asks for a Dominion Co-operatives Act.

Q. I will state what the recommendations are, because I am not trying to trip you up at all. They are as follows: "(a) that a proper definition of a co-operative be inserted in the Income War Tax Act and Excess Profits Act; (b) that provision be made for the incorporation of co-operatives under Dominion law, and (c) that recognizing the great social benefits of co-operatives and that the patronage refund is not income in any true sense, all co-operatives be exempt from the payment of income tax and excess profits tax, by statute, on patronage returns."

A. That is right.

Q. Those are what you, as spokesman for your group, are recommending? A. Yes.

Q. And recommendation (d), which has to do with credit unions, is not commented on in your brief. You do not make that recommendation? A. No.

Q. I think you are in good company when you say that somebody ought to make a proper definition of what a co-operative is. Could you help us on that? A. I do not think I could, here.

Q. Where could you? We are willing to go anywhere that you can help us. This is one of the problems we have been working on. A. I think you can appreciate that I would not care to dictate a definition of what a true co-operative is.

Q. I know that, but have you given the matter consideration? A. Yes.

Q. Without seeking to hold you to a hard and fast definition, I wonder if you could give us some of the attributes of a true co-operative? A. I believe the Canadian Co-operative Wool Growers Limited is a true co-operative.

Q. Do you think that is as good an example as any of a true co-operative? A. I do.

Q. There may be some co-operatives which would contest that and say that your institution, as you have described it this morning, is a so-called co-operative or perhaps a spurious co-operative--I do not know what that term means.

A. That is not how it is known throughout the country. It is a pretty practical co-operative.

Q. I suppose you just cannot conceive of a truer type of co-operative than the Canadian Co-operative Wool Growers Limited? You think it is as good an example of a true co-operative as any in the country? A. Yes.

Q. That is as good a definition as we could expect. You say that here is a co-operative that has got all the ear-marks and attributes of a true co-operative? A. Yes.

Q. Coming to recommendation (b), "that provision be made for the incorporation of co-operatives under Dominion law," why do you concur in that? A. I would like to see membership versus the financing by share capital more clearly defined. The second point is that whether our charter is in strict conformity with the Dominion Companies Act, I do not know.

Q. Should a co-operative be organized and operated in strict conformity with the Dominion Companies Act?

A. I do not know whether all the provisions in our charter would bear up under the Dominion Companies Act.

For example, if Mr. Jones is a sheep breeder and one of our shareholders, and he decides to sell his shares, it should be in the Dominion Companies Act that he should turn them back to us and not be able to sell them to John Smith.

Q. Would there be any advantage in having a Dominion Co-operatives Act rather than uniform Acts in all the provinces? A. Perhaps that would be all right.

Q. Your object is to have some uniformity? A. Yes, and since we operate throughout the Dominion we prefer a Dominion Act. I recall speaking some years ago to Mr. Thomas Mulvey, then Under Secretary of State, and he stated definitely--I cannot give you his words, naturally--that you can have a company just as co-operative as you like under the present Dominion Companies Act.

BY MR. ARNASON:

Q. Mr. O'Brien, I take it that under your present charter you have not the power to repurchase your shares?

A. That is correct.

Q. Do you think it would be an advantage to your Co-operative if you had that power? A. Yes, it would be an advantage inasmuch as if you finance with share capital you can always keep it--revolving, I think is the word--

BY THE CHAIRMAN:

Q. Keep it in the family? A. Keep it in the family. Thank you.

BY MR. ARNASON:

Q. I took it from your answer of a few moments ago that in the event of a dissolution of the Co-operative your reserves would be distributed to your shippers and members of the last year of the Co-operative's operations,

on the basis of their patronage. If you had authority to repurchase the share or shares of a member who was retiring as a sheep breeder, do you think it would be possible for you to work out a system whereby that member could also get a portion of the reserve back? A. No, I would not think so. I would think that if he got his \$10 that he paid for his share, that is all he would get. But I would think it would help a lot if when a wool shipper offered his shares for sale, or if his estate offered them, we could take them back and resell them or cancel them.

BY THE CHAIRMAN:

Q. What advantage has the shareholder in that set-up?

A. He has not any.

Q. Except that he gets interest on his shares?

A. There is no advantage. We have repeatedly told people that there is no advantage in anybody being a shareholder in the Canadian Co-operative Wool Growers over the advantage that anyone gets as a shipper of wool.

BY MR. ARNASON:

Q. The voting rights are limited to the shareholders?

A. Yes.

Q. How do the shareholders vote? Do they vote through the locals? Is membership in the locals a prerequisite to voting? A. No. We follow the ordinary routine. A shareholder has a vote.

BY THE CHAIRMAN:

Q. A shareholder certainly has this advantage, that he votes as to the distribution which you are going to make of any surpluses? A. Yes.

Q. That is, he votes through the directors? A. Yes.

Q. Is that not an advantage over the member who has no share at all? A. It might ordinarily be, sir, but I do not think it is in our case. Three of our directors, for instance, represent the sheep industry as a whole. They are the Deputy Minister of Agriculture in Quebec, the Live Stock Director of Nova Scotia and the Commissioner of Marketing. A director who represents sheep breeders in sections where the industry is carried on on a small scale has to have a knowledge of general farming. As Mr. Parker knows, in Nova Scotia a farmer never has more than fifteen or twenty sheep, and he carries on general agriculture. So in order to represent them a man must have a knowledge of general farming.

BY MR. VAUGHAN:

Q. About what percentage of your shareholders are shippers? A. I find that hard to answer, for this reason, that an association like the Southern Alberta Sheep Breeders Limited is a shareholder and ships us one and a half million pounds, whereas an individual who is a shareholder may ship us only 125 pounds.

Q. Would a majority of the shippers be shareholders? A. Not in some of the provinces. In New Brunswick, for example, only a small percentage, perhaps 10 per cent, of the shippers would be shareholders, and they would hold only a few shares.

BY THE CHAIRMAN:

Q. Are your shareholders' meetings well attended? A. Not particularly. In provinces where there are sheep breeders' associations we combine them usually with their meetings.

BY MR. ARNASON:

Q. Are a majority of your affiliated associations

incorporated under provincial legislation? A. I would think a majority, yes. Some of them are not.

MR. ARNASON: I know several of them that are not.

BY MR. NADEAU:

Q. Is there any limitation to the number of shares that may be held by either an individual or a local association? A. Not by a local association. There is by an individual--fifty.

BY MR. PARKER:

Q. On the question of the ownership of those reserves, will you turn to your by-law No. 38? It says:

"The Board is authorized so to conduct the affairs of the company as to provide, if possible, a charge against all business sufficient for an annual payment of 8 per cent per annum on the paid-up capital and to provide from year to year such reserve fund as to the directors may seem necessary in the interests of the company. Such reserve may be carried in two separate accounts, one called 'General Reserve' and the other called 'Contingency Reserve', both of which shall be the property of the company: provided that in any winding up of the company the 'Contingency Reserve', after any losses on growers' cash advances or wool sales, shall be distributed among the patrons of the company, doing business with the company during the last year in which the company carries on business, and such distribution to be made in proportion to the volume of business done in such year."

That makes it pretty clear that it is the company's money, subject to that proviso? A. I do not understand why it makes it the company's money. You could not have everybody, say twenty thousand farmers, asking

for their portion in a certain year.

BY THE CHAIRMAN:

Q. If it is their money, is that not their right?

A. I expect they could, yes.

Q. If it is the association's money, it is not their right. I am speaking of right now.

BY MR. PARKER:

Q. They have the right to get it on the winding up of the company, is that so? A. We try to make that clear.

Q. The Ontario Co-operative Union's recommendation (c), in which you concur, is: "that recognizing the great social benefits of co-operatives and that the patronage refund is not income in any true sense, all co-operatives be exempt from the payment of income tax and excess profits tax, by statute, on patronage returns." You are recommending there that these refunds should be exempt from income tax for two reasons: first, that great social benefits arise from co-operatives; and secondly, that the refunds are in fact not income. Which of these is the reason why you think the refunds should be exempt? Let me put it to you this way: if they are in fact not income it is unnecessary to recommend that they be exempted, because no one has to pay tax on something that is not income. So that cannot be the reason. It occurs to me that you are suggesting that patronage refunds should be exempt because of the social benefits of co-operatives. Is that so?

MR. FRANCIS: There are two submissions there. One does not exclude the other.

THE WITNESS: My explanation is that we handle a man's

wool on consignment. When he ships his wool we pay him a cash advance, and when 80 per cent of the wool has been sold we make him a final payment, on the grades and estimated sale price of the remainder. If we make a rebate later on it is out of money which we over-charged him as commission or out of the surplus.

Q. The only reason I raised the question was that the suggestion has been made to this Commission that even though patronage returns are income they should be exempt from income tax because of the great social benefits of co-operatives--the educational and recreational centres and that sort of thing conducted by co-operatives. Do you agree with that argument or do you care to comment on it? A. I do not know. I have enunciated what I think and tried to explain my idea why the refunds are part of the income of the man who owns the wool.

Q. I am merely trying to find out on what ground you recommend that these patronage refunds should be exempt from the payment of income tax. Do you agree with the argument that they should be exempt because of the great social benefits of co-operatives? That is what recommendation (c) of the Ontario Co-operative Union seems to imply: "that recognizing the great social benefits of co-operatives and that the patronage refund is not income in any true sense, all co-operatives be exempt from the payment of income tax and excess profits tax, by statute, on patronage returns." As I pointed out before, that asks for exemption on two grounds: one, the great social benefits of co-operatives, and, secondly, the fact that patronage refunds are not income. But if they are not income I do not see why you need exemption,

because you could not be taxed on something that was not income. Therefore the inference seems to be that you are asking for exemption because of the great social benefits of co-operatives. A. Interpreting that myself, I would say it points out that the co-operatives confer great social benefits, and then it goes on to say that the patronage refunds are not true income. I do not correlate these grounds.

BY MR. ELLIOTT:

Q. On page 4 of your brief you state that you made an over-payment on two occasions, and that on the first occasion you had to ask the growers to refund part of the cash advance. Did the growers accede to your request?

A. In part. That was in 1920 or 1921, and that was something we would hope never to attempt again.

Q. What is the reason for that sentiment? Is it some experience you had in collecting? A. Yes. A farmer is no different from any other man. While he agrees to accept a cash advance on his wool as such, as soon as he has got it he views the cash advance as a part payment. That is everybody's view, except mine. If the sale price on his wool does not come up to the cash advance plus, he does not like it. As I say, in that way he is no different from any other man.

Q. Your interpretation is that you have the right to collect back from the farmer whatever you have advanced him in excess of what you receive for his wool when sold? A. Yes, he has to pay it in some form, or through this Contingency Reserve which we later set up, which we think is a wiser plan.

Q. That part of the advance which you did collect

back, was it collected in cash or by subsequent deductions on receipt of the members' wool, or in both ways? A. In both ways.

Q. It has been suggested here that your shareholders, in the event of the winding up of your Co-operative, might have a conflicting interest, as compared with your patrons, in the distribution of reserves; and you have stated that there is no great incentive for anyone to hold your shares. In Saskatchewan it was suggested to us that the ideal method of financing a co-operative would be to have the members interested as investors proportionately to their interest as customers. It was not suggested that that could be completely achieved in practice, but that was suggested as an ideal. Does that seem to you to be reasonable? A. No, not to me.

Q. What is the matter with it? A. I think in a co-operative effort the small man should have the same feeling of interest as the large man--in our business, for instance, the small farmer has the same feeling of interest as the large rancher. When that principle is applied they meet on equal ground, and a man who ships a carload of wool does not think he is more important than a man who has twenty-five head of pure-bred sheep.

Q. I have not made my question clear. Suppose one man is shipping five times as much wool as another, would it be reasonable, if some way could be devised, to have the first man invest five times as much in your association? A. We did not think so.

Q. I am not speaking now of voting rights or anything like that. You would expect the small man to invest as much as the large shipper? A. Yes. I do not think

that the investor should have any particular interest as such in running the business. That is the reason I would favour a Dominion Companies Act which would provide some means of financing and at the same time give membership rights.

Q. I was thinking of a situation where the small shipper and the large shipper each had only one vote, but where each was required to have shareholdings in proportion to the volume of his shipments. In such circumstances, if A shipped five times as much wool as B, A would have five times as many shares as B. A. But wouldn't A feel that he dominated over the other man?

Q. If each had only one vote? A. Wouldn't the big man feel that he dominated?

Q. He might feel that he was asked to invest too much. A. In our case we limit the number of shares that any one man may hold to fifty.

Q. But because of the way the shares are paid for there is some correspondence between the volume of a man's shipments and the number of shares he holds?

A. No.

BY MR. VAUGHAN:

Q. In the case that Mr. Elliott was putting to you, it would cost five times as much to finance the big shipper. There would have to be larger borrowings from the bank to handle his business, and probably it would entail more administrative expense. I think Mr. Elliott's point is that the big shipper should in fairness put up more capital for borrowing purposes than the small shipper does. Of course, that all works out if you have a revolving fund. A. And of course the big shipper would

pay more at the outset on a poundage basis, on the volume of business, and through any reserves that are maintained he would be contributing proportionately more than the small shipper.

Q. Yes, if they are allocated, but not in a general reserve. A. Yes, he still would be contributing more capital in a general reserve.

BY MR. FILLMORE:

Q. Mr. O'Brien, you have a paid-up capital of \$120,000? A. Yes.

Q. And the company is only obligated to pay interest on the capital? A. If possible.

Q. Does your charter provide that you cannot pay dividends or that you must not? A. It provides for conducting the business in such a way, if possible, as to pay up to 8 per cent.

Q. Eight per cent dividend? A. Yes.

Q. I would like to see that. That is a little different from what you have in your brief. In your brief you say you can only pay interest on your paid-up capital.

MR. FRANCIS: That is in the supplementary Letters Patent, which I will now show my learned friend.

BY MR. FILLMORE:

Q. This document states:

"At the end of each fiscal year the Board of Directors shall distribute the net profits after all operating and other expenses have been paid as follows and in the order following: The Board is authorized so to conduct the affairs of the company as to provide if possible a charge against all business sufficient for an annual payment of

8 per centum per annum on the paid-up capital and to provide from year to year such reserve fund as to the directors may seem necessary in the interests of the company. Any further annual surplus funds in the possession of the company shall be distributed to the patrons of the company whether shareholders or not in proportion to the volume of business done."

THE CHAIRMAN: What is that, Mr. Fillmore? Is that a dividend?

MR. FILLMORE: That may be a matter of argument, my Lord. It is just an annual payment on shares, and I think an annual payment on shares is a dividend. You do not pay interest on shares of ordinary capital stock.

THE CHAIRMAN: If it were interest, would it be subject to being paid "if possible"? Interest does not depend on the possibility of its payment; it is a fixed charge.

MR. FILLMORE: I say it is more in the nature of a dividend, because if possible they may make a payment of 8 per cent.

BY MR. FILLMORE:

Q. I understand that you have this paid-up capital and several hundred thousand dollars in the Contingency and General Reserve accounts? A. Not several hundred thousand dollars. There is \$200,000 in the Contingency Reserve.

Q. What is the total of the two reserves?
A. \$319,000.

Q. Have you got fixed assets, warehouses and so forth?
A. Yes.

Q. What is the approximate investment there?

A. As it stands now, do you mean, with the depreciated value?

Q. Do you know the approximate cost? A. About \$100,000, I think, the approximate cost in the beginning.

Q. And you mentioned Victory Bonds \$200,000. I suppose part of the reserves is in Victory Bonds, or are they in addition to your reserves? A. No. The height of our wool season is from May to October. At that time we very often have not any money at all, and the bonds are either sold or nearly always pledged; and then as the fall months approach the clip moves out and the cash comes back. We only use our funds for handling the clip.

Q. In other words, your reserves are used as working capital when required? A. That is right. They are liquidated each season during the height of the season and brought back during the dull period. They are only used in the wool business.

Q. What was the volume of business transacted in 1944? A. In dollars or poundage?

Q. In dollars. A. About one and three-quarter million dollars.

Q. Has your association been growing? A. Yes.

Q. Has your volume been increasing year by year? A. Yes.

Q. And the number of members has been increasing? A. Yes.

Q. And the amount of sales of supplies has been increasing? A. Not particularly.

Q. What processing or work do you carry on in the warehouses aside from grading? Do you do any cleaning or anything else to the goods? A. We sort, grade and

sort at times; we do not do any processing.

Q. As I understand it, you have no contract, except as already stated, with individual growers? A. No.

Q. Have you any written contract with local associations? A. Yes. I answered that already.

Q. You have not got a copy of that here? A. No.

Q. In some cases you receive wool direct from the growers and in other cases you receive it from local associations? A. Yes.

Q. In one case you account to the grower and in the other to the local association? A. Yes.

Q. In each case when the goods are received in the warehouse they are sorted and graded? So I take it that from that point on the identity of the goods is lost. That is, you never know the exact amount for which you have sold wool shipped in to you by farmer A, the exact amount for which you have sold his particular goods? All you know is that you sold goods of the same grade as his at a certain price. A. The same grade and quality and price.

Q. I take it that at some time during the season the price of a particular grade may fall? A. That is right.

Q. So you do not know whether any particular goods were sold for price A, B or C? If farmer X ships you goods, you do not know whether goods of his grade and quality were sold for price A, B or C? You do not follow it through that closely? A. Are you calling individuals A, B and C?

Q. No. I am saying, suppose farmer X ships you wool and it is graded and sold during the season, if during the season there are three different prices for his grade or grades you do not know at which price or prices you sold

his particular goods? A. We only know the price that a particular grade averages throughout the season for the number of people in it.

Q. You say you make an initial payment to your shippers. Does that have anything to do with the current market price paid by competitors? Has it any relation to the current market price? A. Certainly, to the current market price.

Q. What relation? What is the percentage? A. You act according to your best judgment. It depends on what forward-looking powers you have, and the kind of market you are going into. If it is a strong market you advance more than if it is a weak market.

Q. Do you try to make the initial payment as much as the shipper could get for the goods from anybody else in the same locality? A. No. We enunciated in the brief that we give a general average of 65 per cent of the estimated market value.

Q. After the goods are sold-- A. Do you mean the season's goods?

Q. After the goods produced in the summer are sold, you make a final payment? A. Yes, by grades, to the individual farmer.

Q. But that is only when 80 per cent of the goods have been sold? A. Yes. There has to be some dead-line, because there are certain grades of wool that might not sell for three years, and it would be impossible to wait till it was all sold.

Q. Some is not actually sold at the time you make what you call a final payment? A. No.

Q. Then some of the final payment would be made up from

goods carried over from previous years? A. Yes, that could be.

Q. I presume out of your general bank balance. Then you make what you call a further payment sometimes, do you? A. Yes.

Q. The directors of the company meet--is it the directors or the shareholders who meet? A. Both.

Q. And by that time do you have the result of the season's operations? A. Yes.

Q. You have a profit and loss statement? A. That is right.

Q. And in the earnings you will have interest from Victory Bonds? A. In the revenue we will have interest from the bonds.

Q. And you will have the commission you received from the Government? A. Yes.

Q. Also you will have some margin which you held back as you sold the goods for more than you paid out? That margin would be shown too? A. On the sale of supplies?

Q. No, but on the wool business too. Out of your final payment you also hold back something? Your reserves have been created by holding back some part out of the sale price, have they not? Or let us say they are a result of playing safe. From what source were the reserves created? Were they created out of the moneys for which you sold wool? A. Yes, they could be

Q. You have got \$300,000 in reserves which came from your business operations, let us put it that way. A. We have been in business twenty-seven years.

Q. And they came in part, at any rate.--
A. They came from wool.

Q. At the end of the season you have a profit and loss statement in which are shown all these earnings, is that correct? A. Our income is shown.

Q. And on the other side of the balance sheet you have your expenses? A. Yes.

Q. Including dividends on shares? That is an expense, I take it. Have you been paying 8 per cent on shares? A. No. As I said, we have paid the current bank loan rates.

Q. But in late years have you been paying 8 per cent on your paid-up capital? A. No.

Q. You have been paying what? A. 4, $4\frac{1}{2}$ and 5 per cent.

Q. That would be included as an expense, I take it, whatever you actually paid for the use of the money? A. Yes.

Q. Then you provide reserves year after year to serve as a margin of safety? A. We provide such reserves as seem necessary to carry on this business.

Q. And deducting one from the other, you have what we will call a surplus, is that right? Assuming you have had a good year, your profit and loss statement shows a surplus? A. Yes, it should.

Q. Then the directors or the shareholders or both decide-- A. What to do with it.

Q. And amongst other things they sometimes distribute part of it to the growers? A. Right.

Q. Now, in the case of an individual grower, does it go to the grower; and in the case of an association member, does it go to the association? A. In the case of a small grower--that has already come up--it is accumulated

until it becomes an amount worth paying out. A quarter of a cent a pound on fifty pounds is not worth paying out.

Q. How does that distribution differ from the dividend paid by an ordinary joint stock company to its shareholders? A. It is part of the price of his wool. It never did belong to us.

Q. Mr. O'Brien, we have just gone over your profit and loss statement and we have seen that some of the earnings come from your handling charges, some from interest on your bonds, some from profit made on supplies, some from profit made on wool, yet you say you are giving back to the man part of the proceeds of the sale of his own wool?

A. Right.

Q. That is what you say? A. That is what I say.

BY THE CHAIRMAN:

Q. Mr. O'Brien, clause 4 of your supplementary Letters Patent says, "At the end of each fiscal year the Board of Directors shall distribute the net profits after all operating and other expenses have been paid". It says they "shall" do that? A. Yes.

Q. Am I right in saying that you are not obliged to pay the interest? A. We are not obliged to pay the interest on shares.

Q. That is only to be paid if possible? A. If possible, yes. As I remember it, sir, the reason for putting it that way was that it was felt that to direct somebody to run a business that would pay such and such a rate might be to direct him to do something that at times would be impossible.

Q. But you do not undertake to pay interest "if possible". If it is interest and you fail to pay it,

a shareholder can sue you; but if it is a dividend, you cannot be sued for non-payment. Interest is an actual debt. If you borrow \$100,000, the interest on that is an actual debt. A. The interest or dividend, whichever it is, has always been paid since we started.

BY MR. FILLMORE:

Q. How have you decided how much interest you will pay? A. For many years we have been following the policy of paying the interest or dividend on the shares at the rate that we pay to the bank against our loan. We are simply reimbursing the shareholders.

Q. The amount of interest you pay has no relation to the net earnings of the company? A. That is right.

Q. Your charter says you are to disburse your profits in a certain way: "At the end of each fiscal year the Board of Directors shall distribute the net profits after all operating and other expenses have been paid as follows and in the order following". Let me call your attention to the word "shall". Then it goes on to say: "The Board is authorized so to conduct the affairs of the company as to provide if possible a charge against all business sufficient for an annual payment of 8 per centum per annum on the paid-up capital..." Has it been possible for you to pay 8 per cent instead of the bank rate? That is the first thing you have got to do. Has that not been possible? A. I would think it has been possible.

Q. You have had money to allocate to reserves and you have had money to make a distribution to members, yet you have not given the shareholders up to 8 per cent. That is the situation? A. To interpret these questions is

beyond me. What does "up to" mean?

Q. I will read that clause from your charter again:

"At the end of each fiscal year the Board of Directors shall distribute the net profits after all operating and other expenses have been paid"--it is only expenses--"as follows and in the order following:"--Bear in mind that the order is fixed--"The Board is authorized so to conduct the affairs of the company as to provide if possible a charge against all business sufficient for an annual payment of 8 per centum per annum on the paid-up capital"--That is payment No. 1. Then it goes on to payment No. 2--"and to provide from year to year such reserve fund as to the directors may seem necessary in the interests of the company. Any further annual surplus funds in the possession of the company shall be distributed to the patrons of the company whether shareholders or not in proportion to the volume of business done."

There is your charter, and I am calling your attention to the fact that you have not been following it.

MR. PARKER: Mr. Chairman, my friend is making an argument, in which he may be right or not, on the interpretation of that document. I do not think that is quite fair to the witness. There may be a difference between my learned friend and myself as to what the document means.

MR. FRANCIS: My Lord, I would have objected, but I intend to answer this through a series of questions in a few moments.

BY MR. FILLMORE:

Q. Mr. O'Brien, when you make the final payment, that

payment, I take it, is made out of whatever funds you have in your bank account? That is an obvious question, but I mean your ability to pay depends on the use of capital and labour. In making that final payment, in providing the money for the final payment, you have employed capital and labour. To put it in another way, Mr. O'Brien, the company is able to make that final payment because it has warehouses and because it has working capital and because it has reserves? Would you care to answer that? A. We make the final payment because the wool has been sold, up to 80 per cent, by grades, and after deducting the estimated costs we send a cheque for the difference.

Q. Twenty per cent of the wool may be carried over for a year or more? A. Carried till the first available market for it.

Q. And at that time you do not know what you will get for it? A. No.

Q. So as an actual fact when you make that final payment you do not know exactly what will be realized out of that year's crop? A. We know 80 per cent of it.

Q. You stated, I believe, that in some years you have had losses through over-payments? A. Yes.

Q. Would you object to telling me the greatest loss you have had in any one year?

MR. FRANCIS: I do not think that is relevant at this stage, Mr. Chairman. Of course, the Commission will be gladly given the information, if it is desired.

THE CHAIRMAN: I do not think you should press that, Mr. Fillmore. It does not help us very much.

MR. FRANCIS: As I say, if the Commission would like

the information, we shall provide it.

BY MR. FILLMORE:

Q. Did you collect the loss from individual growers?

A. In one instance, in part, yes; in the other, no.

Q. Have you or did you have any agreement in writing enabling you to call on a grower if you sustained a loss through over-payment? A. I do not know.

BY MR. FRANCIS:

Q. After my learned friend's valiant attempt to turn your organization into a joint stock company, I would like to ask a few questions. Who decided, Mr. O'Brien, that your company should pay on share capital 4 or 5 per cent?

A. The directors.

Q. Was that directors' recommendation approved by your shareholders? A. Yes.

Q. And I presume it can be changed, can it? A. Yes.

Q. I notice that the rate set out in your original Letters Patent was 6 per cent? A. Yes.

Q. And I observe that by the supplementary Letters Patent that was increased to 8 per cent? A. Right.

Q. Mr. O'Brien, will you please tell the Commission why that change was made? A. The change was made because our western friends at that time, who were still heavy contributors, told us they were paying 7 and 8 per cent for money from the banks out there.

Q. The reason you raised it was so that you could get capital with which to finance the business? A. Yes.

Q. And notwithstanding the fact that you have now an order to pay 8 per cent, those who receive this interest or dividend, whatever you call it, decide themselves that they will take only 4 or 5 per cent? A. That is right.

Q. My friend Mr. Fillmore referred to the increase in your membership. In your opinion, why do not all the sheep growers in Canada market their products through your Co-operative?

MR. PARKER: That is a big question, is it not?

THE WITNESS: In my opinion they should. Would it be fair to ask Mr. Francis why all the law business in Saskatoon does not go to him?

MR. FRANCIS: I could give you a reason for that.

THE WITNESS: We pay for wool, as already indicated, by a cash advance and on a graded basis, but in those parts of the country where the clips are small an itinerant buyer will go around, ready to pay cash, without any grading, simply paying so much for a farmer's wool, and he will grab a large proportion of the small clips. Then in the ranching country there are individuals who prefer to negotiate their own sales rather than let a co-operative handle them, because they want a say as to the final price. There is all that sort of thing.

BY MR. FRANCIS:

Q. My friend Mr. Fillmore asked you if you segregated the wool of farmer X when you marketed it, and I think your answer was that you segregated it in the sense that it was classified. A. Pulled and light wool and light grades.

Q. Would it be practicable to segregate the wool of farmer X in marketing it? A. No.

Q. Do you consider, from your twenty-five years' experience as General Manager, that the method you follow is the practical one? A. I think the answer has to be "Of course". I thought that would be the answer. I take it that the membership of your organization is widely

scattered? A. Yes.

Q. What effect would that have on the attendance of members at meetings? A. At those provincial meetings it is bound to make it small. At our annual meetings, to which delegates are sent from the respective provinces, we have the full quota attending every year.

Q. The recommendations of the Ontario Co-operative Union, about which my friend Mr. Parker was questioning you, includes this recommendation (b): "that provision be made for the incorporation of co-operatives under Dominion law." Mr. Commissioner Arnason asked as to the repurchase of shares, and it was brought out that that is not possible under your present charter but is desirable. As to control, who do you think should control the organization? A. The suppliers of the product which you are marketing.

Q. In short, the growers? A. That is right.

Q. Under the present Dominion Companies Act have you been able to find a suitable device by which the growers can completely control the company? A. No, not that I know of.

Q. Would that be another reason why you would favour a Dominion Co-operatives Act? A. Yes.

Q. Is it fair to put it this way, that in so far as your Co-operative is not entirely satisfactory in its operations you would say that is due to the lack of adequate legislation under which to operate? A. I might think that, but I do not know that I can say it, because we have a way of operating our company on share capital through the associations and provincial Departments of Agriculture, as has been explained. But that is not a permanent

solution.

Q. It is perhaps a little clumsy? Would it be fair to say that? A. Yes.

Q. As a matter of fact, this is the first co-operative ever set up under Dominion legislation, is it not? A. As far as I know.

Q. And I think the only one that has been operating for a number of years? However, you may not know that. Reference was made to your by-laws, which provide that on winding up of the Co-operative a certain reserve shall be distributed to the patrons in proportion to the volume of business done, and the list of patrons is limited to those of the last year in which the Co-operative carries on business. That is set out in your by-laws, and these can be changed by your directors and shareholders? A. Yes.

Q. In a period of three or four years would the list of patrons of your company change very much? A. No. I would like to add that there might be a change in the individual but the same farm would continue to ship to us. If a man dies, his son or some other member of his family will probably continue to ship to us. Many growers who started to ship to us in 1918 are still shipping to us; and also we are still receiving shipments from many farms that began to ship to us back in those days and in the meantime have undergone change of ownership--some of them have perhaps been inherited by sons of the original shippers, and so on.

Q. Does the list for a period of three or four years remain fairly constant? A. Yes.

Q. I presume, since you have this by-law, that that was deemed to be a practical way of dealing with it?

A. That was the idea of the by-law, to find some practical way by which it could be done.

Q. Has there been any criticism of it? A. No.

Q. Of course, it has not been put into effect, for there has been no winding up. Now I want to sum up the evidence on supplies, and I will ask a question, to which my learned friend may object if he wishes.

MR. PARKER: You should not ask a question if you think it will be objected to.

BY MR. FRANCIS:

Q. Is it fair to say that the main purpose in handling supplies of good quality is to have these available for the growers in your association?

MR. PARKER: I have no objection to that.

THE WITNESS: Yes. By the way, somebody asked if we were compelled to distribute any of these supplies. There is one, phenothiazine, which is for internal dosage of sheep. We are asked by the Science Service here at Ottawa to distribute that at cost, and I think that apart from one agency in the Maritimes we are the only people who distribute it.

BY THE CHAIRMAN:

Q. Do you get this from the supplier that you mentioned before? A. No. The formula was made up by one of the scientists at Macdonald College, and it is manufactured by Merck and Company.

MR. MILLIKEN: Mr. Chairman, I do not want to ask the witness any questions, but before he leaves I should like to make a statement. He was questioned by two of the Commissioners as to whether he was in favour of having the number of shares held by a grower bear some proportion to

the quantity of wool that the grower ships in. May I suggest that if the Commission are interested they could find out why at least one organization discarded that method. I refer to the Fraser Valley Milk Producers. In their original set-up they provided that the number of shares held by a man should correspond to the number of his cows, but later on they changed this. I have no doubt that the organization would be pleased to advise why this change was made. You already have had before you, Mr. Chairman, a subsidiary of the wheat pools which operates on that basis, namely, the Pool Insurance Company, whose stock is held as nearly as possible in proportion to the volume of business done.

MR. FILLMORE: Mr. Chairman, I forgot to ask the witness if voting is done by proxy.

BY THE CHAIRMAN:

- Q. How do you vote at your meetings? A. By ballot.
Q. Are proxies taken? A. No.
-

THE CHAIRMAN: What briefs are to come next?

MR. PARKER: Mr. Chairman, there are three. One is from the Chambre de Commerce du Province de Quebec, which is filed and will be presented in French. It is understood that will be taken up the first thing in the morning. Mr. Brossard will be here then.

The next one is the International Lumbering Association Limited brief, which has been filed by a Mr. Grimes. He has been in touch with Mr. Francis. Apparently Mr. Grimes is in doubt as to whether he would be better off if he supported his brief with witnesses or simply left it on file. In any case, he is unable

to be here now, and I understand from Mr. Francis that if it is desired to call evidence an application will be made for a hearing.

THE CHAIRMAN: We can leave it in suspense. If Mr. Grimes wants to be heard, arrangements can be made; otherwise, the brief will be accepted.

MR. FRANCIS: Thank you, Mr. Chairman.

MR. PARKER: The formal filing of the brief can be deferred.

THE CHAIRMAN: Suspended is, I think, the term.

MR. PARKER: Inasmuch as we do not want any international complication to arise in respect of this Commission, perhaps it would be the courteous thing to allow this gentleman to be heard, if he so wishes.

THE CHAIRMAN: It will stand for the time being.

MR. PARKER: That will dispose of the business for this week. Then there is the Co-operative Union of Canada. It will be recalled that Mr. Good presented his main brief at the first sittings in Ottawa, when my examination on it was deferred. He has since filed a supplementary brief, and I understand he wishes to file certain specific recommendations. I can see no point to making three bites of a cherry, so I suggest, subject to the approval of Mr. Good and his counsel, that he come in at the end and be prepared for cross-examination on the whole of his submissions.

THE CHAIRMAN: There is only a part of the first brief remaining for cross-examination by Mr. Grosch.

MR. PARKER: I think the proper stage for cleaning up the whole thing would be at the end of the docket, if that meets with Mr. Good's approval.

MR. GOOD: Quite satisfactory.

MR. PARKER: That makes a clean sheet. There is, however, the brief of the Canadian Lumbermen's Association, which Mr. LeClair mentioned at the outset of this morning's proceedings. I do not know whether the Commission would wish to hear it before lunch--it is now 12.30--or take it up this afternoon. Mr. LeClair said he would prefer to be heard to-day, if possible.

THE CHAIRMAN: We will hear him this afternoon.

The Commission thereupon adjourned until 2.30 this afternoon.

The Commission resumed at 2.15 p.m.

THE CHAIRMAN: Are you ready?

MR. PARKER: I am.

W. J. LeCLAIR

Secretary-Manager,
Canadian Lumbermen's Association
having been duly sworn,
testified as follows.

BY MR. PARKER:

Q. Before you read your brief perhaps I might find out what it is all about. You are Secretary-Manager of the Canadian Lumbermen's Association? A. Yes, sir.

Q. And you have prepared or supervised the preparation of this brief you are about to read? A. Yes, sir.

Q. Did you prepare it completely yourself?
A. With consultation with my directors.

Q. How many directors have you? A. We have twenty-four directors. Not all of them were concerned with the preparation of this brief. It was left to me.

Q. How many of them were concerned? A. Oh, I have consulted with maybe a dozen of them from time to time, and with groups representing the different sections of the industry as I indicated this morning.

Q. And the association is an incorporated body?
A. Yes, sir.

Q. Incorporated under -- A. Dominion --

Q. The Dominion Companies Act. A. Yes, sir.

Q. And has share capital? A. No. I do not know what you mean exactly.

Q. Does it issue shares? A. No, it does not.

Q. Who appoints these twenty-four directors?

A. They are elected.

Q. By whom? A. By the six constituent bodies or so-called bureaus indicated on the letterhead, the White pine Bureau, the Canadian Hardwood Bureau, the Canadian Spruce Bureau, the Wholesale and Export Bureau, the Retail Bureau and the Woodworkers Bureau.

Q. Are they in turn incorporated bodies? A. No, they operate under C.L.A. charter.

Q. What is that? A. Under the Canadian Lumbermen's Association.

Q. Wait; they in turn operate under a charter granted by the Canadian Lumbermen's Association? A. They are in effect branches or sections of the Canadian Lumbermen's Association.

Q. That is what I am trying to find out. In what manner are they sections of it? Are they merely committees? A. No, they are not. They are autonomous organizations in respect to the operation or regularization of the affairs of their particular group. They even have control over their funds with the qualification that the needs of the parent association for general expenses and such like shall be a first charge upon those funds. I am secretary-manager, executive officer and treasurer.

Q. Let us go back. I want to get it straight. You have twenty-four directors but those directors are not shareholders? A. No.

Q. Yet you have shareholders? A. I would not call them shareholders. They are members contributing an assessment.

Q. That is these six? A. No, the members of these six associations.

Q. I am afraid you are confusing me. I do not know

about the Commission. We have got a body corporate, the Canadian Lumbermen's Association, incorporated under the Dominion Companies Act? A. Yes.

Q. That being so I assumed when I began that it had members? A. Yes.

Q. And to be a member I assumed each member would have at least one share of something or other? A. No. They admit to membership on payment of association fees.

BY THE CHAIRMAN:

Q. Of how much? A. It is set by these bureaus. They differ. In the case of White Pine it is 20 cents per 1000 feet. In the case of Hardwood it is a sliding scale on the different grades which averages about 15 cents. In the case of Spruce it is only 5 cents. It is not a co-operative or an association of that nature at all. It is merely an association to better business methods and supervise and represent the interests of the group.

Q. I have not read the brief. What stand do you take on the question before us? A. We object to the establishment or permission for the establishment of a preferential class in respect to taxation.

Q. I see. You are opposed to special privilege? A. We are opposed to any special privilege.

BY MR. PARKER:

Q. Can you give me approximately how many individuals or firms are represented in these six bureaus? A. I have a list here. There is approximately 850. It varies. As a matter of fact, I am told it is more now.

Q. Perhaps you could file a list of those. What I am getting at is you are appearing here as spokesman apparently for 850 firms? A. Yes.

Q. That is really what it boils down to? A. Yes.

Q. Of the 850 firms I want to know how many you are really able to speak for, how many you have consulted?

A. I am acting on the instructions of an annual meeting at which there were over a thousand delegates.

Q. When this question was discussed? A. When this question was discussed.

Q. When was that annual meeting held? A. That was held on February 12th, 13th and 14th of this year.

Q. This whole question was up for discussion at that meeting? A. Yes.

Q. As a result of which you were asked to prepare a brief expressing their views? A. Yes.

Q. Is that the way it worked out? A. Yes.

BY THE CHAIRMAN:

Q. Was there a resolution passed expressing that?
A. Yes.

Q. Have you that resolution? A. I have not got it here but I will make it available to you.

Q. Can we take this brief as in accordance with the terms of the resolution? A. The brief is in accordance with the terms of the resolution.

MR. PARKER: Perhaps you had better read it.

THE WITNESS: "On the instructions of the annual meeting of the Canadian Lumbermen's Association held in Montreal on February 12, 13 and 14, 1945, I have to inform the Commission that that meeting, at which there were present about one thousand delegates from all parts of Canada, went on unanimous record as opposed to the principle of exemption from taxation of cooperatives. It was further directed that adequate representation be made to you advising of the situation (past, present, and prospective) of the Canadian lumber industry in order that you might appreciate

the possible implications from the continuance of a privileged class with respect to taxation as they may be expected to effect the lumber industry and its contribution to Canadian economy.

"For your information, the Canadian Lumbermen's Association is the national body of Canadian lumbermen operating under Dominion Charter and representing all branches of the industry, viz: - manufacturer, wholesaler and retailer. It has a membership of over 850 drawn from all provinces of Canada. It works in closest harmony with the various provincial organizations in the trade, and its opinion can be considered as the consensus of opinion of the Canadian lumber industry.

"Canada's Prosperity Predicated on a Wood Economy"

"It has been repeatedly stated that Canada's prosperity is predicated on a wood economy. The forest industry of Canada is next in importance only to agriculture. It is even unfair to forestry to relegate it to second place, because agriculture in many parts of Canada is vitally dependent on lumbering and logging for its existence. The logging industry draws more than 70 per cent of its seasonal labour from farms. By so doing, it provides in many instances the only cash income obtained by such farmers. It not only provides employment for farmers in their off-season time but it provides employment for their horses as well, and furthermore in many instances provides the principal market for their produce.

"A principal reason for the great depression between the years 1929 and 1939 in Canada was the depressed conditions of the lumbering industry. It had been dependent for more than one half of its markets upon its export

trade and the slump in world conditions came very near to dealing it a death blow. It is worthy of note that the Dominion Government made an issue of British preferential tariff treatment for lumber from Canada as an essential to alleviate depression conditions in Canada.

"The incidence of the war has created a temporary stimulus in lumber markets, but it has also brought into sharp relief certain situations which may seriously prejudice a continuation of this British preferential treatment after the conclusion of hostilities. Two conditions ought to be particularly kept in mind, viz:-

- (1) Canada's two principal lumber competitors which were handicapped by the British preference were the United States and Soviet Russia. Britain has incurred obligations to these two powers which may make it difficult to defend a discriminatory tariff policy toward them.
- (2) Britain's financial needs and her position as a sterling country may make it embarrassing for her to continue to encourage lumber imports from a dollar country. It ought to be remembered that in pre-war days Europe exported some 73 per cent of the world's exportable lumber surplus and Canada only about 5 per cent.

"Alternative to Export Trade

"Failing a certainty of adequate export markets, Canada's lumber trade has only one alternative and that is to develop domestic markets. It can accomplish this only by bolstering the retail lumber trade of Canada. It is common knowledge that the retail lumber trade was a depressed industry during the decade preceding the outbreak of war. Its financial reserves were greatly depreciated

and the incidence of wartime taxation has prevented the accumulation of substantial additional reserves.

"The retail lumber trade contends (and the C.L.A. directorate supports its contention) that it would be grossly unjust to permit it to be subjected to competition by cooperatives which enjoy tax exemption privileges. The incidence of the Income War Tax Act and the Excess Profits Tax Act 1940 imposes a severe strain upon business. It can be defended only if its application is made general. It is considered that it would be a most reprehensible act calculated to seriously discourage private enterprise if a privileged class be permitted to exist. It is considered by the lumber trade that such tax exemptions are bound to encourage a material increase in the number and extent of the business of cooperatives to the imminent detriment of private enterprise.

"Lumber Industry a Monument to Private Industry

"The lumber industry of Canada is a monument to private industry. With between six thousand and seven thousand manufacturing units across the length and breadth of Canada, it has without public assistance conquered our forests and built up a world wide merchandising organization. With the possible exception of mining, no other industry in the country is beset with so many or such large unpredictable risks. Many of these, such as forest fires, insect infestation, etc., are non-insurable. In eastern Canada where over 50 per cent of Canadian lumber is produced, the time lag between the felling of the tree and its sale as lumber varies from twelve months to two years and in some cases is even longer. The vagaries of weather are a constant hazard. This spring for example millions of feet of timber had to be left in the bush

because of an unprecedented and unexpected break in the weather. If later in the season there should be a failure of water the river drives may be tied up and millions more feet may have to stay in water or stranded in log jams until another season's water supply is available. There is a decreasing inducement to private capital to take the risks involved, coupled with the inevitable slowness of returns. The inducement may be expected to be further reduced if a loss of confidence is permitted to develop with respect to lumber merchandising organization. The lumber trade feels that under the special privileges enjoyed by cooperatives there is a real danger of their expansion into the lumber merchandising field. If such a development materializes, private enterprise in connection with the sale of lumber will be very definitely handicapped. The industry further believes very completely in the necessity of personal interest and expectation of a realization of profit as a means towards the maintenance of a lumber merchandising organization. The competition to which lumber and lumber products is submitted is so varied and complex that it is believed that no substitute can be found for the present system which is the product of a lengthy evolution.

"Success of Lumber Industry Necessary to Rehabilitation"

"The Canadian Lumbermen's Association submits that the success of the lumber industry is a prime necessity to post war rehabilitation. In world competition Canada is handicapped by weather conditions. A great deal of seasonal employment has been the order of the past and may be expected to be in the future. The lumber industry has been the one big outlet existing in Canada for such employment.

Canada's reconversion to peace time needs will necessitate a stimulated rather than a discouraged lumber industry. Over-cutting of war years has resulted in provincial government restrictive measures in several provinces. If the industry is to continue to meet its obligations under the difficulties envisaged in the post war years, encouragement will be necessary to retain experienced operators in all branches. The continuance of a discriminatory and inequitable practice in the matter of taxation will discourage the continuance of a number of operators. The best minds in the industry feel so keenly on the implications of taxation policy on the success of the industry that a council of forest industries presented a brief to the cabinet on February 16th of this year which is at present having the study of government. It is submitted now that there is a further real threat to the successful performance of the industry if the present tendency to expansion in the cooperative movement under the encouragement of taxation exemption is permitted to go unchecked.

"Intention of 1930 Exemption and
British Precedent."

"The Canadian Lumbermen's Association frankly admits that it does not consider itself competent to debate the abstract subject of taxation, but it submits that the very language of the exemption clause indicates that parliament had in mind a much more restricted conception of cooperatives than that which at present obtains, and furthermore the association questions very much if such an exemption would have been obtained had the subsequent great increases in taxation been considered. It contends that what was at that time a concession of slight advantage to cooperatives has now become a serious handicap to their

competitors.

"It is felt that the idea of cooperatives in Canada is a mutual development of precedents set in Great Britain. The Canadian Lumbermen's Association submits that Canada differs so greatly from Great Britain in national economies and in population and geographic factors that it is dangerous to assume that because cooperatives have made a place for themselves in Britain's economy that a parallel result will obtain in Canada.

"In this connection it is submitted that the exemption extended to cooperatives in Canada does not obtain in Great Britain. The Commission is respectfully referred to the recommendations of the United Kingdom parliamentary committee of 1932 which were adopted in the Finance Act amendments of 1933. These amendments established equitable taxation as between cooperatives and ordinary joint stock companies in England.

"In order to achieve the same result in Canada, it would be necessary to make cooperatives liable to tax on their profits in the same way as joint stock companies, but allow a deduction in respect of patronage dividends (provided these have actually been paid), both to cooperatives and to ordinary joint stock companies or other businesses, as this is not allowed at present to the latter. Finally, and most important of all, when dividends are paid on capital either by a joint stock company or a cooperative, it would be necessary to adopt the United Kingdom principle of crediting to company shareholders, or cooperative members as the case may be, on their individual income tax, all taxes paid on such dividends at the source. Such a change, in addition to bringing about equality of treatment as between company shareholders and cooperative members,

would remove the present gross inequity as between both of these groups on the one hand and bondholders on the other.

"While on the subject of the British study it should be borne in mind that the dissenting commissioners of the 1919 United Kingdom Royal Commission while favouring the exemption from taxation of cooperatives on receipts arising from transactions with their own members very definitely went on record that "If there were in the United Kingdom as there is in the United States a corporation tax levied specially on corporations as such, it would no doubt be proper that a cooperative society should, as a separate legal entity, be made liable to that tax."

"The Canadian Lumbermen's Association respectfully repeats that it views with real alarm the possibilities of unfair competition from the existing privileges enjoyed by cooperatives, that it definitely records as its opinion that there ought to be no privileged class as regards taxation and that equality of treatment in the matter of taxation ought to obtain. It further earnestly recommends for the serious consideration of the Commission the British decisions on the subject. It feels that such concessions as are granted in Britain should be the very maximum which ought to be accorded in Canada with respect to normal taxation practice. As regards special war imposts, it feels that any special concession granted to cooperatives is indefensible and incompatible with the professed purpose and principle of such war taxation."

BY MR. PARKER:

Q. Mr. LeClair, perhaps you can tell us definitely what recommendations, if any, the Lumbermen's Association makes to this Commission, or do they not make any?

A. They make no definite recommendations. They merely

express an opinion.

Q. Just generally that there should not be any exemption, and beyond that this brief is not intended to go?

A. That is perfectly right. We simply wish the Commission to know the feeling of the lumber industry.

BY THE CHAIRMAN:

Q. I understand that actually at the moment you have no cooperative competition? A. I would not say that. The real excuse for my delay was in the hope of getting some definite submissions in that connection. What has been transmitted to me so far is largely in the nature of fears and worries. One specific instance has been recorded of an American cooperative with Canadian affiliation acquiring possession of a large shingle mill in British Columbia, and the logging operations attached. That is a worry to both the manufacturing and distributing groups in the industry.

Q. Does that go to the length of owning limits?

A. I believe it does go to the length of holding limits, but I have not definite information. I dislike to submit this because I have no definite submissions and do not wish to mention names or anything connected with it but it has been told me that in the east certain cooperatives have shown indication of a desire to go into the lumber industry, into the merchandising of lumber. In that connection the trade is particularly worried because of the price set-up. We are operating under a fixed ceiling. All lumber retailers -- and I am speaking now particularly for retailers -- have their prices to the consumer fixed. The wholesalers' price is fixed. It has been told me that this particular cooperative claims to be able to obtain lumber. If it can obtain lumber

under existing conditions it must obtain it only by paying a higher price than its competitors.

Q. These are really suppositions? A. These are suppositions, and I do not wish to mention them. That is my real excuse for delay.

BY MR. PARKER:

Q. I notice in the membership list which you have filed the name of the Ilderton Farmers' Co-operative Company Limited. Do you know that outfit? A. I only know them as a member. I have never had any contact with them.

Q. Did you know they were a cooperative institution? A. I did not know they were a cooperative.

Q. I assume they are from the name? A. Yes. There is nothing in our membership qualifications or anywhere else to preclude such from membership.

Q. There may be more so far as you know? A. There may be more so far as I know. I do not think so, but I do not know.

MR. PARKER: I do not think I can usefully ask this witness any more questions, Mr. Chairman.

BY MR. ARNASON:

Q. Mr. LeClair, will you permit a question in connection with page ten of your brief, the last paragraph? I want to be clear that I understand your reference. It is the second last sentence.

"It" -- that is the Lumbermen's Association --

"feels that such concessions as are granted in Britain should be the very maximum which ought to be accorded in Canada with respect to normal taxation practice."

Does that mean you are in favour of exempting patronage dividends? A. It means, in so far as I can gather the opinion of my directorate, that they subscribe to this

reference to the British practice at the moment as interpreted by the following --

Q. As applied to cooperatives? A. Yes.

Q. When you were drafting this brief did you prepare it with reference to cooperatives generally or just retail and wholesale cooperatives? A. Cooperatives generally, but on the particular request of the retail section of the trade.

Q. We have heard submissions with regard to credit unions and cooperatives marketing agricultural products. Did you have those in mind as well, or with special emphasis on the other? A. Not particularly, but with special emphasis on the other. I am in the rather invidious position of trying to express the opinion of my members. Our members feel that in all probability there is a place for certain forms of cooperatives in Canada. We are not opposed to the principle but we are opposed to unfairness of competition.

BY MR. ELLIOTT:

Q. May I ask a question or two? This is really suggested to me by your saying with some hesitation that you are not a cooperative. Are your members all incorporated? In your retail section are they all incorporated companies or are some of them individuals? A. Many of them are individuals. Some are incorporated companies; some are individuals.

Q. And are the fees you receive from your members annual fees? A. Annual fees.

Q. In some cases so much a foot? A. Yes, in some cases on production, in some cases on sales, and in some cases a fixed fee, depending on the wishes of the particular group.

Q. And the Canadian Lumbermen's Association is a registered company? A. Yes, it is an association registered under dominion law.

Q. Is the association a taxpayer? A. The association is not a taxpayer. It is a non-profit organization. It does not do any business beyond providing service for its members. It has the fullest cooperation and approval of all governments because we have demonstrated we have materially improved the lumber business. For instance, we maintain an inspection service for lumber.

Q. It is not a business organization itself?
A. It is not a business organization itself at all.

Q. Does it spend in giving service all the fees it collects? A. That is the intention. It is only within the last few years since my being made manager that I have insisted upon the building up of certain reserves as a safety measure, but those reserves are small.

Q. To whom do they belong? A. All the funds of the association belong to the six constituent bureaus. The reserve in each case belongs to the bureau which has it.

Q. And if it should be wound up it would be returned?
A. It would have to be returned to the membership of that bureau.

Q. So that it is for your members as taxpayers rather than for the association itself that you are making representations? A. Exactly.

MR. FRANCIS: I do not wish to ask any questions.

THE CHAIRMAN: Is there anything further?

MR. PARKER: Nothing, Mr. Chairman; that seems to be all on the list for today. As I said this morning we have the Quebec Chamber of Commerce tomorrow.

THE CHAIRMAN: It is not very often you have that to say.

MR. PARKER: No. I hope to be able to say it more often in the future.

MR. FRANCIS: My lord, while appearing in the city of Regina there was a submission made on behalf of the Saskatchewan Federated Co-operatives Limited. At that time an excerpt from the rules of the Co-operative Wholesale Society Limited of Great Britain was read into the record. I undertook at that time to cable to Great Britain to obtain a complete set of the rules and file them with the Commission. That was after cross-examination by my learned friend, Mr. Thorvaldson. Through the kindness of the Secretary of the Co-operative Wholesale Society in Great Britain I now have a copy and would like to file it. It is in connection with the submission of Saskatchewan Federated Co-operatives Limited.

THE CHAIRMAN: Very well. We have just one brief for tomorrow?

MR. PARKER: Just one brief.

THE CHAIRMAN: Ten o'clock tomorrow morning.

The Commission thereupon adjourned until Friday, April 13, at 10 a.m.

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